European Network of Economic Policy Research Institutes

GLOBALISATION AND SOCIAL RISK MANAGEMENT IN EUROPE

A LITERATURE REVIEW

JURAJ DRAXLER

ENEPRI RESEARCH REPORT NO. 23

SEPTEMBER 2006

ENEPRI Research Reports are designed to make the results of research undertaken within the framework of the European Network of Economic Policy Research Institutes (ENEPRI) publicly available. This background paper was prepared as part of the ENEPRI project on the **Social Impact of Globalisation in the EU (SIMGLOBE),** which has received funding from the European Commission's Directorate General for Employment, Social Affairs and Equal Opportunity (contract no. VC/2005/0228). This contribution by Juraj Draxler was financed by the **REVISER project – a *Research Training Network on Health, Ageing and Retirement*** – which has received funding from the European Commission under the 5th Research Framework Programme (contract no. HPRN-CT-2002-00330). Its findings and conclusions should be attributed to the author and not to ENEPRI or any of its member institutions.

ISBN 92-9079-663-4

AVAILABLE FOR FREE DOWNLOADING FROM THE ENEPRI WEBSITE (HTTP://WWW.ENEPRI.ORG) OR THE CEPS WEBSITE (WWW.CEPS.BE)

Globalisation and Social Risk Management in Europe

A Literature Review

ENEPRI Research Report No. 23/September 2006

Juraj Draxler*

Abstract

Globalisation has become a catch-all term imbuing public discussions with a sense of urgency about something that often cannot even be properly identified. This literature review presents an outline of arguments about what globalisation actually can mean, how to measure it and how to face it.

Large parts of the world have seen an explosion in trade, cross-border investment flows and innovation transfers in recent years. Quantitatively, this can be captured in the appropriate statistics. On the other hand, in trying to understand the drivers of these changes, it is necessary to describe the changing institutions and actors that play a significant role in this process. Some authors point to the role of the multinational enterprise as a uniquely defining feature of globalisation.

It is difficult to disentangle the effect of globalisation from the evolution of the most-developed economies towards a 'post-industrial' mode of operation. On top of this, countries are increasingly affected by endogenous social changes such as the diminished role of the nuclear family and population ageing (resulting from falling birth rates and rising longevity).

Policy-makers face demands to help citizens cope with the risks arising out of this new state of affairs. In addition to describing globalisation, this paper provides an overview of the possible responses. In particular, it focuses on the growing body of literature that seeks to re-focus the attention on social protection as a 'productive factor' and as something that should be seen as part of the larger framework of 'social risk management'. The latter concept stresses the need to look at social protection as only one component of a larger framework, which contains macroeconomic conditions as well as various state, market and individual tools for managing personal risks.

* Juraj Draxler is a Research Fellow at CEPS and a PhD candidate at the University of Edinburgh.

Contents

Globalisation and Social Risk Management in Europe

A Literature Review

ENEPRI Research Report No. 23/September 2006

Juraj Draxler

1. Introduction

Globalisation became the buzzword of 1990s. The Iron Curtain had just fallen and governments around the world embraced market-based mechanisms more strongly than ever. The liberalisation of trade, investments and financial flows proceeded apace towards the creation of one global marketplace. Today, a foreign-exchange dealer in a bank somewhere in Europe follows the movements of currencies in Asia just as closely as the ones in and around Europe. Products are made where it is cheapest to make them. For example, three-fifths of all clothing buttons used in the world are actually produced in one region in China.[1]

By the 2000s, the word 'anti-globalisation' had crept into the public debate,[2] and discussions about the merits and drawbacks of globalisation have since become the norm.

International organisations have duly responded with studies on globalisation and its impact on the social sphere. The Organisation for Economic Cooperation and Development (OECD) organised a research programme on "Empowering People to Meet the Challenges of Globalisation". The International Labour Organisation (ILO) established the World Commission on Globalisation. The World Bank published its report on *Poverty in an Age of Globalisation* (2000) and other studies.

Surprisingly little has been done, however, in terms of an analysis of globalisation and its impact on the European social sphere. That is something ENEPRI's project on the Social Impact of Globalisation in the EU (SIMGLOBE), of which this paper is a part, intends to partially remedy.

---

[1] More specifically, they are produced in and around one town, Qiaotou ("The tiger's teeth", *The Guardian*, 25 May 2005).

[2] Stan Fischer (2003, p. 2, fn 2) describes the rise of 'globalisation' and 'anti-globalisation' as follows:

> During the 1970's the word 'globalization' was never mentioned in the pages of *The New York Times*. In the 1980's the word cropped up less than once a week; in the first half of the 1990's, less than twice a week; and in the latter half of the decade, no more than three times a week. In 2000 there were 514 stories in the paper that made reference to 'globalization'; there were 364 stories in 2001, and 393 references in 2002. Based on stories in *The New York Times*, the idea of being 'anti-globalization' was not one that existed before about 1999. Turning from the newspaper to the internet, 'globalization' brings up 1.6 million links through the use of the Google search engine, and typing in 'anti-globalization' brings up 80,000 links.

Yet there has been an increasing recognition in analytical and policy-related documents of the need to adjust labour market and social protection policies to the perceived demand for ‘flexibilisation’ in today’s marketplace. On the one hand, proponents of the ‘Eurosclerosis’ thesis have advocated a radical scale-down of existing welfare-state mechanisms. On the other hand, many commentators have drawn attention to the efficiency function of social protection. The European Commission published a study on *The Costs of Non-Social Policy* (Begg et al., 2004). It has also adopted, for some documents, the concept of transitional labour markets, recognising the need to help individuals manage transitions across the life course, in a world of increasingly differentiated life-course profiles. And the World Bank introduced a new conceptual framework for social risk management (Holzmann & Jorgensen, 2000). This framework aims at promoting a positive, individual-empowering notion of social protection, and breaks with the narrow view of social risks as something to be managed by public redistribution and service production.

This literature review sums up the challenges to the different variants of the European social model (ESM). It starts with a survey of the meanings of globalisation. While not offering one definition of globalisation, it sketches out ways of conceptualising and measuring the phenomenon. A brief survey of theoretical arguments relating to social protection and social risk management follows. The wider linkages between trade, investments and financial flows, the production and dissemination of innovation, and individual welfare are described next. Finally, the last section sums up the social protection challenges that lie ahead of us in Europe.

2. Globalisation

2.1 History

In 1962, Marshall McLuhan first brought out the term ‘global’ as something denoting a tectonic shift in social relations into the public domain in his book *The Gutenberg Galaxy*. The term was more ‘cultural’ in content than anything else. The concept of a ‘global village’ describes broad changing patterns in human perceptions of time and space. Indeed, communication technologies and commercial developments have by now created a certain global, common cultural code. Two people from different parts of the globe can easily discuss their favourite Hollywood movies, analyse the politics of some of those military conflicts that are heavily covered by news agencies or comment on the contents of some globally-disseminated lifestyle platform, as in the magazine *Cosmopolitan* for example.

‘Globalisation’ has, however, increasingly come to be referred to in connection with economic challenges (see the discussion in Box 1). References are often negative, as when newspaper headlines describe anti-globalist protesters spoiling international gatherings or anti-globalisation feelings running against the European Constitution (Giddens, 2005, p. 97).

Globalisation in this sense denotes the processes of pressure on labour markets to become more flexible and wages to adjust to the rate dictated by the global market. Producers compete not just with other producers in the same country or region but increasingly with almost anyone across the globe, as new technology makes transportation much less of a cost and communication much easier.

Box 1. Globalisation – The history of a free-floating signifier

In **1962** Marshall McLuhan published his *Gutenberg Galaxy*, in which he coined the idea of a 'global village', pointing out that satellite communications is creating a certain universal, radically new culture. It was at this point that the world began to be sensitised to the adjective **'global' as describing a profound change** of the environment we live in, associated vaguely with a reorganisation of distance and time.

In the **1970s** there was an **explosion in cross-border financial flows**. This development stemmed from various interrelated reasons – the infusion of dollars by the US into the world financial markets in an effort to pay, simultaneously, for its welfare state expansion and the Vietnam war; the parallel 'non-regulation' by the UK government of the market in Eurodollars; the end of Bretton Woods; and the growth of the Eurodollar market in the wake of the oil crisis as large volumes of petrodollars started circulating in the system. With the rise in volume of the extra-national financial markets and the currency exchange volatilities introduced by the end of Bretton Woods, there was a critical mass established for the financial institutions to develop ever-more sophisticated instruments. These helped to a) address the demand for risk management (through financial derivatives) and b) further escape the regulatory framework of states (especially during the period when they were engaging in deflationary policies, such as during the US Federal Reserve Board's policies in 1979-82, at the beginning of Paul Volcker's chairmanship).

It was during this period that the key component of what we view today as globalisation came into being – the **existence of financial flows seemingly autonomous of state power**, circling the globe in search of profits.

In the **1980s**, this tendency was strongly reinforced by the implementation of technological advances (Reuters introduced its vastly enhanced platform for real time worldwide dealing in currencies) and government policies (the massive US exports of dollars through trade deficits). Furthermore, the world started talking decisively about **trading blocs.** The Single European Market was established, followed by the North American Free Trade Agreement (NAFTA) in the next decade.

The **1990s** saw, crucially, the erosion of the Westphalian system – that is, the notion in international law established by the Treaty of Westphalia (1648) of total separation of international and intra-state laws, whereby states are creators of their respective legal systems and other states should fully respect their sovereignty. Of course, the rise of intergovernmental organisations, such as the United Nations, had been prominent throughout the 20th century, as has been the increasing number of cross-national agreements (e.g. the Charter of Human Rights and the Helsinki accords), each constraining national sovereignty. In the 1990s, however, the idea that humanitarian and human rights concerns are above state sovereignty (Taylor, 2001) found expression in the growing acceptance of 'humanitarian interventions' (Somalia, Bosnia, Haiti, Sierra Leone, etc.) and in cases such as the extradition proceedings for General Augusto Pinochet, the establishment of the International Criminal Court and so on.

The decade also witnessed the rise of two different sets of concerns about globalisation. On the one hand, there was a notable homogenisation of 'culture' and tastes as consumers all around the globe were exposed to Hollywood movies, ate at McDonald's and so forth. This component of globalisation is the one that often echoes 'Americanisation'. On the other hand, globalisation came to be equated with the role of world capital versus the perceived decreasing power of states or democratic politics (or both). Globalisation here means hire-and-fire policies, job insecurity, the 'robbing of the common man' through those highly complicated mechanisms of transfer pricing, vehicle firms and tax havens, which for many epitomise the 'ugly' side of globalisation. It increased material well-being for many, but introduced an uncomfortably fast pace of change, creating a 'runaway world' (Giddens, 2002). These are the facets of globalisation reviled by the activists who swarmed Seattle during the WTO Ministerial Conference in 1999 and later took up other occasions to force a standoff with the institutions of the 'Washington Consensus'.

Of course, this is also the decade when the WTO was established and world trade reached a new level of liberalisation and intensity.

So, globalisation has many facets. For many, it means that global standards have become more reliable than local ones – as for example an increasing number of people go to Starbucks as a recognised international standard rather than to a local coffee shop. Some would say globalisation means pronounced core-periphery effects in the international economy.

We can argue that it means that the state acts more as an upholder of a certain framework of globalisation rather than the paternalistic entity of the earlier eras. The more effectively a state is capable of exercising soft, structural power (Strange, 1994), meaning influencing international frameworks and the rules of the game rather than extracting gains bilaterally, or the more it is capable of individual-empowering, 'input-based policies' (universal education and training for a flexible, knowledge-based economy) rather than simply redistributing wealth, the more, we might say, is such a state 'globalised' or 'globalisation-ready'.

This paper seeks to describe globalisation in a broad context of shifting social risks (Bonilla Garcia & Gruat, 2003). Processes often referred to as 'globalisation', especially the deepening international division of labour affected through growing trade and increasing investment flows, bring, in general, undeniable benefits. The exchange of products makes trading parties better off. Flows of products and investment increase productive capacity by facilitating the transfer of knowledge and technology. International investment flows often help to create capital dramatically faster than used to be the case with relatively closed economies. Openness to trade usually helps heterogeneous economies improve their governance patterns. But even in more mono-sectoral economies, where rent-seeking and monopoly practices can for a while be enhanced by intensified trade, the general openness can ultimately stimulate political pressure for change.

On the other hand, analysts and, indeed, policy-makers need to be aware that the effects of globalisation depend very much on the distribution of endowments in the economy and society. Appropriate policy decisions based on knowledge of the linkages between globalisation-related effects and their impact on welfare will help to create public or market-based mechanisms that should aid in managing risks arising from globalisation and contribute to robust economic performance.

2.2 Globalisation today

What, then, is globalisation? Quite often, the word comes to mean simply the increasing role of international trade in today's world.

The trend towards increases of trade flows began in the wake of the post-war boom. Between 1967 and 1986, gross global economic output increased by a factor of 6.5 and trade by a factor of 10 (Storper, 1992, p. 63). Between 1985 and 2002, trade integration grew faster than world output in GDP – the former slightly more than tripled, the latter less than tripled (Gunter & van der Hoeven, 2004, p. 3) – while the world's flows of foreign direct investment (FDI) increased 10 times in the same period (2004, p. 6).

By this measure, however, globalisation is nothing new, as critics often point out. The volume of international trade today as a percentage of production is not different from what it was a century ago, and the story for capital flows is similar (for a historical perspective on globalisation, see Bordo, Taylor & Williamson, 2003). Still, in a narrow sense, it is possible to define globalisation *as a process*, at any time in history, not just a particular age, when world trade grows more rapidly than production (Storper, 1992, p. 63). To extend and slightly modify this definition, one might say that globalisation means that intra-industry product specialisation grows more rapidly than overall output. Analyses based on a high level of commodity disaggregation confirm that trade has increased as a consequence of the specialisation of exchanges within the same broad sectors (ibid..; Gerstenberger, 1990).

This deepening intra-sector specialisation affected across borders touches on another important facet of today's world economy. Two-thirds of world trade is actually trade in intermediate products. And two-thirds of world trade is intra-company trade, done mostly by multinational enterprises (Gunter & van der Hoeven, 2004, p. 10). Some authors point to the role of MNEs as a uniquely defining feature of globalisation (Strange, 1986). The role of the MNE seems likely to grow in the future (Ostry, 1998, p. 86).

At the same time, while it is true that trade has been growing rapidly, this holds for the developed countries and only *some* countries outside this club. While "the developing countries' share of internationally fragmented products has remained stable over the last 15 years, the share of the low-income countries has decreased" (Gunter & van der Hoeven, 2004, p. 10). In the developing world, globalisation is basically restrained to 20 countries.

It can be argued that these 20 countries cover 90% of the developing countries' population (Reisen, Grandes & Pinaud, 2005, p. 21). The fact is, however, that globalisation is a phenomenon pretty much centralised on a handful of countries run by a handful of governments. A lot of the gains in terms of poverty reduction during globalisation, for example, have been advanced in two countries, China and India. In South America, it seems that trade openness has led to a rise in income inequalities and generally very uneven gains. This outcome has something to do with the structure of returns to productive assets (Morley, 2001). And one entire continent, Africa, has actually become more marginalised (Tsikata, 2001, p. 12).

The rise of China alone accounts for a lot in the globalisation story. It may be an exaggeration to state that shutting down China today would mean shutting down globalisation – but not too much of an exaggeration. In 2003, China's economy accounted for 55% of Asia's exports. As a percentage of the world economy, China accounts for 7.2% of imports and 16.5% of exports (Reisen, Grandes & Pinaud, 2005, p. 17). The country is increasingly a price-maker in commodity markets (ibid., p. 19). China is the second largest holder of US Treasury bills in the world ($165 billion, 6.5% of total foreign holdings), which makes the cheap labour giant an extremely important player in US and world financial stability (ibid., p. 20).

The Asian experience in general illustrates something that analysts have been pointing at for some time. A rising share of world trade is driven by processes that cannot be explained by traditional, comparative advantage theories (Tyson, 1987 and Storper, 1992, p. 63).[3]

This trend shows that "we live in a world where factors of production for technologically stable products are not endowed, but produced as intermediate outputs" (Storper, 1992, pp. 63-4). This observation is important as it casts a new light on social risk management and the need to underpin risk-taking and innovation processes by a careful policy framework in which social protection, education and intervention in the production of knowledge are closely connected.

Jessop (2002, p. 119) argues that in this context it is useful to distinguish between static and dynamic comparative advantages. The former would be derived from the control of 'natural' resources, while the latter "are somewhat more obviously socially created, can be socially transformed and may well become objects of strategic intervention". Comparative advantages are hard to sustain with fast standardisation, and long-term competitiveness might be increasingly dependent on creating social patterns that aid in the constant generation and effective adoption of innovations (Box 2). On the other hand, the idea of 'international

---

[3] For a discussion on various trade theories see Storper (1992, pp. 64-5).

competitiveness' is conceptually ambiguous (ibid., p. 121), and has even been criticised as essentially nonsensical (Krugman, 1994, p. 256-66).

Box 2. Forms of competitiveness (based on Jessop, 2002, p. 121)

Ricardian account. Comparative advantage rests, according to the English political economist David Ricardo, on exploiting the most abundant and cheapest factors of production and exchanging products for products from other economies embodying different factor endowments. Competitiveness in this account depends on efficiency in allocating given resources to minimise production costs with the given technical division of labour.

Listian account. Friedrich List, a 19th century German political economist, came up with something equivalent to today's 'infant industry' argument. A state can develop comparative advantage by protecting and supporting selected segments of the economy. International competitiveness here depends on efficiency in allocating resources towards further economic growth, which includes a necessary reallocation of resources for promoting new growth areas.

Schumpeterian account. The 20th century Austrian political economist Joseph Schumpeter outlined the role of permanent innovation as key for modern competitiveness. Collective capacities to promote innovation must cover a wide range of areas – sourcing, technologies, products, organisation and marketing – and must be supported by an array of extra-economic factors. The Schumpeterian account highlights the need for dynamic efficiency in allocating resources to promote a self-sustaining innovation process.

The various aspects of developments in trade and investment present an interesting and convincing story of *something happening*, something that points at growing interdependence and can therefore be summed up under the heading of globalisation.

But this cannot be the whole story. Some relatively recent events – such as the Asian crisis of 1997 and the Russian crisis of 1998, also the spectacular rise (and often fall) of new financial actors (hedge funds), the worries about 'financial contagion' and the unpredictability of financial markets – all remind us that there is more to the cross-border movement of economic power than trade and investment flows.

Some authors actually focus on the growing salience of financial markets as the key feature of the new economic order (Jessop, 2002, pp. 106-07). And, indeed, the rise of various instruments of financial intermediation (if this can still be called 'intermediation') tells an even more dramatic story than the one presented by trade figures. "Between 1963 and 1995, the size of the total funds raised on international markets increased at an annual growth rate of 24.3 per cent compared to 5.5 per cent annual growth rate in world trade and 3.2 per cent growth in global production" (Jessop, 2002, p. 106). These funds are increasingly seen as 'stateless money', which has a dynamic at odds with the immediate post-war financial regime (Leyshon & Tickell, 1994). Approximately $1.5 trillion or the equivalent is exchanged daily on foreign exchange markets and only 5% of this amount is directly related to payments for traded goods or services (Jessop, 2002, p. 106). The de-territorialisation of money is being reinforced by the rise of various derivative instruments.

Thus, globalisation is a multi-faceted concept. It points at changes in the relationship between financial flows and the production of traded goods (Guttman, 2002). It promotes the rise of new developmental processes emanating from post-industrial organisation, which may then clash in their inherent logic. Thus Jessop speaks of the conflict between the concept of knowledge as intellectual commons and knowledge as intellectual property and more broadly of the conflict between implications prioritising the information economy or those stressing the need for an information society (Jessop, 2002, p. 110). This is in line with contradictions sketched out already by Bell (1973) between the economising and sociologising logics of the post-industrial society.

The various dimensions of globalisation can be described as follows (Jessop, 2002, p. 115):

1) the internationalisation of national economic spaces through growing penetration (inward flows) and extraversion (outward flows);
2) the formation of regional economic blocs;
3) the growth of more ‘local internationalisation’ and ‘virtual regions’ through the development of economic ties between local and regional authorities in different national economies;
4) the extension and deepening of multinationalisation through MNEs, transnational banks and international producer-service firms;
5) the widening and deepening of international regimes covering economic and economically relevant issues; and
6) the emergence of globalisation proper through the introduction of global norms and standards, the adoption of global benchmarking and the development of globally integrated markets, in which ‘deracinated’ firms with no evident national base operate.

This list indicates that globalisation is far from producing a homogenised economic space. Rather, it involves a reordering of differences and complementarities in various geographical spaces as well as the global one, and this constant reordering is the basis for creating dynamic competitive advantages (ibid., p. 117).

Depending on which facet of changes sweeping the world they want to stress, different authors come up with different definitions of ‘globalisation’ (Box 3).

Box 3. Globalisation – Some definitions

Globalisation is the...

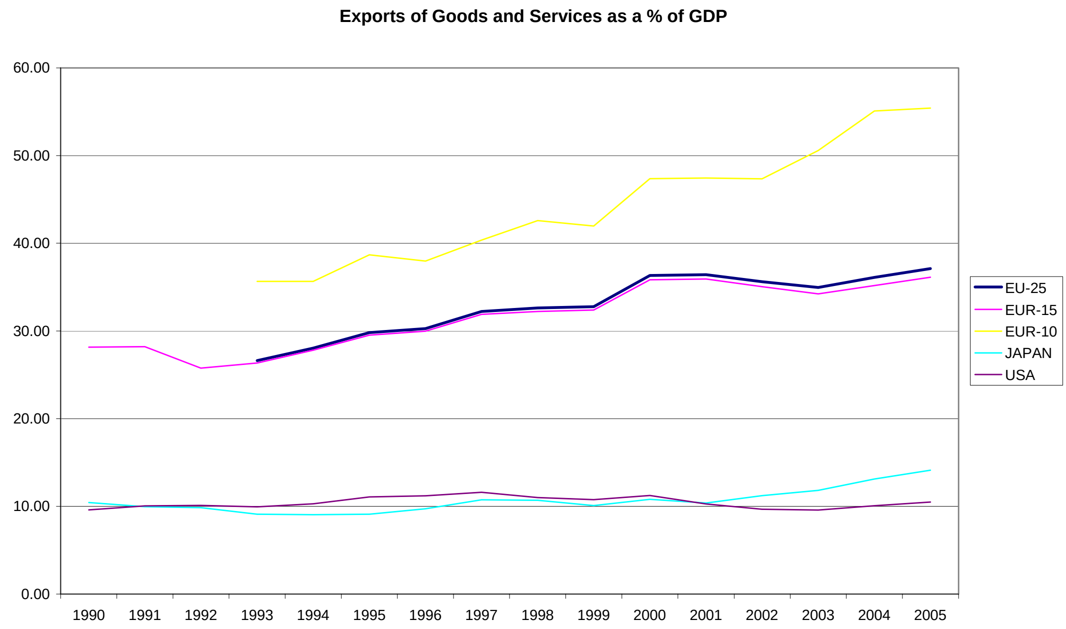
- “integration into the world economy” and increased interdependence “through trade, investment, finance, regional integration, technology, and demographic factors” (Richardson, 1997, p. 50).
- “growing integration of economies and societies around the world as a result of flows of goods and services, capital, people, and ideas” (Dollar, 2001, p. 2).
- external opening and an increased role of markets internally (Robinson, 2001, “Preface”).
- process in which “trade grows more rapidly than production” (Storper, 1992, p. 66).
- “closer integration of the countries and peoples of the world which has been brought about by the enormous reductions of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) of people across borders” (Stiglitz, 2002, p. 9).
- “reorganization of production into global production systems, notably global value chains and export processing zones” (Carr & Che, 2004, p. 1).
- “gradual integration of economies and societies driven by new technologies, new economic relationships and the national and international policies of a wide range of actors, including governments, international organisations, business, labour and civil society” (Gunter & van der Hoeven, 2004, p. v).

- *irreversible* global interconnectedness driven by "factors such as trade, technology, cross-border production systems, information flows, and communication" (ibid.).
- *reversible* "homogenisation of policies and institutions across the world, e.g. trade and capital market liberalisation; the dismantling of the welfare state; international agreements on intellectual property rights" (ibid.).
- sum of two processes – the rise of global interconnectedness owing to information and transportation technologies, and the global shift in policy orientations as governments around the world sign up to trade and investment liberalisation (World Bank, 2000, p. 1).
- (little more than a) "hugely extended network of localities" (Czarniawska & Sevón, 1996, p. 22).
- "polyvalent, promiscuous, controversial word that often obscures more than it reveals" (Jessop, 2002, p. 113).

2.3 How to measure globalisation

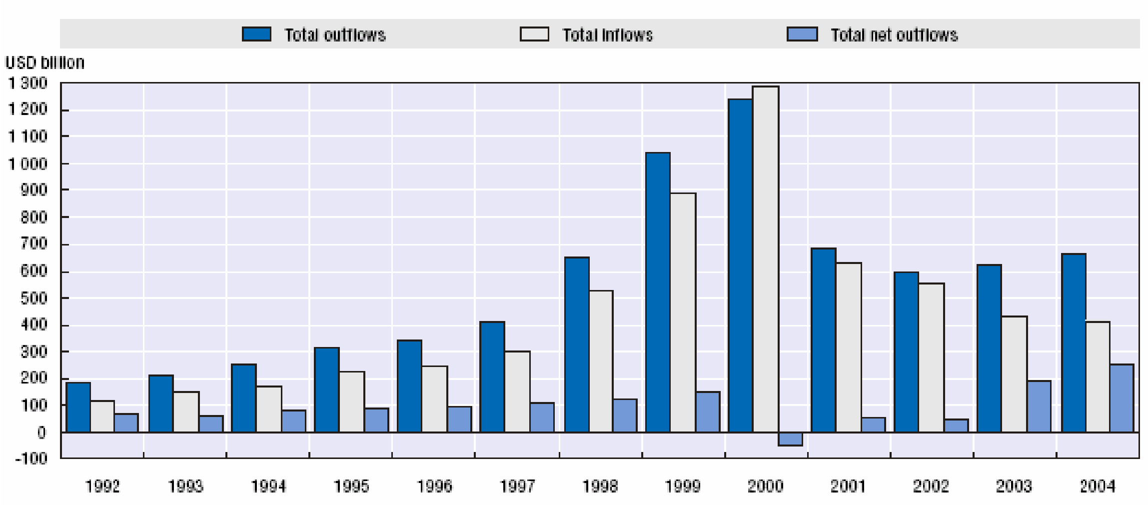
In simple terms, globalisation can be measured by indicators such as openness to trade or investment flows, the share of MNEs in the local economy and so on (Figures 1-3).

Figure 1. Share of total exports as a % of GDP



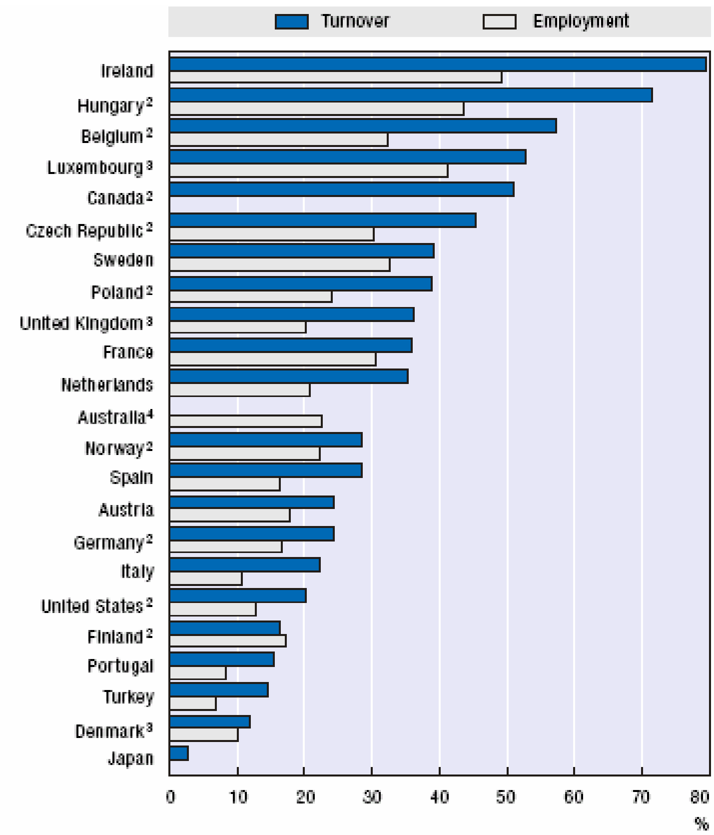
Source: Ameco database (2006).

Figure 2. Total FDI flows to and from OECD countries



Source: OECD (2005).

Figure 3. Share of foreign-controlled affiliates in manufacturing turnover[1)] and employment (2001)



1. Production rather than turnover for Canada and Ireland.
2. 2002.
3. 1999.
4. 2000.

Source: OECD (2005).

The degree to which a country is globalised can be measured by a combination of these indicators (Box 4). Globalisation then becomes a rather multi-dimensional concept, capturing some of the complexities and contradictions that the term entails.

Box 4. Measuring globalisation

Globalisation worldwide

- rise of trade over economic growth/productivity
- rise in financial flows
- rise in intermediate goods, growth, 'globalness' of value chains

Globalisation of countries

- trade openness (exports and imports vs. GDP)
- investment openness (FDI and portfolio inflows and outflows; share of industry occupied by MNEs)
- participation in global value chains
- financial integration (multinational banks' share of the local financial sector; industry and government refinancing through global markets)
- rise in migration

The OECD has also recently published a range of indicators extensively describing the globalisation process (OECD, 2005).

2.4 The post-industrial economy

Dealing with new structures of risks would not be complete without taking into consideration the whole conceptual framework that overlaps with the theme of globalisation, namely the shift from an industrial to an increasingly post-industrial mode of economic growth.

In short, an industrial economy is one centred on large-scale manufacturing operations, based on assembly-line or semi-assembly line work processes. These concentrate a massified workforce, often employed in lifetime jobs. They derive their profit advantage from economies of scale.

As economies become more developed, the technical content of products becomes more easily variable, while growing disposable incomes allow people to make more and more lifestyle choices. 'Flexibility' becomes the key word. On the one hand, products can become quickly modified and innovated as production and the dissemination of knowledge pick up pace through the use of computer and communications technologies. On the other hand, technical and marketing variations also become easier as the market for manufacturing products becomes more and more global owing to decreases in transportation costs. The ratio of costs based on heavy hardware decreases – again as a result of the emergence of a global competitive market and the widespread standardisation of basic technologies. At the same time, the returns to quick adaptation and innovation increase. 'Economies of scope' and 'economies of networks' become the main sources of profit advantage in the post-industrial component of modern economies. And all the while the service sector grows bigger, generating new tensions and tough policy choices arising from the changes in relative costs in the service and manufacturing sectors (the 'Baumol' or 'cost-disease' effect).

The generic problem of modern economies becomes employment. In Europe, the problem is explicit and unemployment emerges as a major welfare-state failure (Esping-Andersen, 1999, p. 2).

This situation creates, in the short term, "painful policy dilemmas…to reduce unemployment, [in which] Europe appears compelled to embrace American-style deregulation. This will inevitably bring about more poverty and more inequality" (ibid., 1999, p. 3).

A lot of the debate on the shift to post-industrialism centres on the issue of when, and if, countries will be able to get out of this unfortunate policy dilemma. This goal might only be possible with the creation of new sectors or sub-sectors of manufacturing or services, based, for example, on revolutionary IT or bio-technological innovation.[4] Thus, new jobs would be created demanding high skills. This would delete the need for de-skilling – whereby people take up low skill work that could often be easily done by machines, just so that they are employed.

Of course, this is a substantial debate, complicated by the fact that the analysis of the shift to post-industrialism is by no means uniform across authors and schools of thought. This paper has so far used the dichotomy of industrial/post-industrial as a generic cleavage. Daniel Bell, who coined the term 'post-industrial society' (1973) later theorised 'information society', together with others, who put an emphasis on a 'knowledge economy', wherein, as some authors stress (Castells, 2000) that networks become the decisive ordering and organisational principle. The French Regulation School uses the terms 'Fordist' and 'post-Fordist' society, defined by extensive multidimensional description (see Box 5).

Box 5. Fordism described by analytical dimensions of the French Regulation School (Jessop, 2002, pp. 56-58)

A distinctive type of labour process. Mass production is the main source of economic dynamism, focusing on assembly-line production operated by semi-skilled labour.

A stable mode of economic growth. This mode refers to a virtuous circle of growth, wherein rising incomes are linked to productivity, which itself is based on economies of scale. Demand increases constantly with steadily rising wages.

A mode of economic regulation. Monetary and credit policies secure effective aggregate demand. Wage bargains are struck in key sectors of industry, from which the 'going rate' spreads to other sectors of the economy. The state plays a crucial role in promoting mass consumption and preserving the balance between labour and capital demands.

A pattern of societalisation. This mode is based on the nuclear family, urban and suburban, to which the market caters by providing standardised goods. The state provides bureaucratised collective goods.

The central role of the state in a Fordist economy consisted of organising and promoting mass production and mass consumption, based on generalised lifestyle norms (Jessop, 2002, p. 59). The labour market had a benign dynamic of its own, with low-productivity agriculture providing workers eager to transfer to the industrial jobs that were being created. The state secured demand by policies aimed at full employment. Wage was seen as a source of demand rather than as an internationally comparable cost of production. As long as wages rose in line with productivity gains and as long as wage gains could to some extent be corrected through mild

[4] This point concerns general trends. Of course, current employment problems in developed countries are exacerbated by the presence of the baby-boom generation in the labour market.

inflation, the circle of growth was uninterrupted. The state also contributed to the 'virtuous circle of Fordist accumulation' by promoting infrastructure build-up and directing urban and regional policies (ibid., pp. 76-77).

It is in these 'thirty glorious years' of post-war growth that something called the 'European social model' (see for example, Grahl & Teague, 1997 and Palier & Sykes, 2000) emerged. This model is often broken down into distinctive types, as in Esping-Andersen's famous three-world typology (1990). Yet many authors, including Esping-Andersen himself, stress the broad congruence of welfare policies among these types – similar goals achieved through different mechanisms (Sharpf & Schmidt, 2000, p. 9).

The crisis of this Keynesian welfare state (Jessop, 2002, p. 80) came from several interrelated sources.

After the general rise in productivity started to wear off as industrial markets became saturated, firms started to look more systematically than before for international expansion. This trend, together with the rise of international credit markets (boosted by the supply of Eurodollars), began to undermine the relative closure of national economies (ibid., 2002, p. 81). In this environment, traditional macroeconomic policies failed to work, and Western economies came to know the world of simultaneous stagnation and inflation ('stagflation'), to which governments contributed by steadfastly sticking to old recipes. At the same time, the continuing drive for productivity increases intensified shop floor struggles, while rising unemployment undermined the balance sheet of the welfare state.

The search for answers led to supply-side interventions (aimed at helping local economies integrate into the global market space), tight fiscal and monetary policies and attacks on labour market regulations and wages.

In this 'fumbling period' (ibid., p. 91) the notion of 'Eurosclerosis' emerged as well as a general indictment of "exaggerated welfare statism" (Esping-Andersen, 1999, p. 4), which is to blame for bad economic underperformance and a host of social problems (Giersch, 1985, Lindbeck, 1994 and Murray, 1984).

There is, however, considerable disagreement about this diagnosis. First, many authors disagree with the notion that European institutions, such as the labour markets, perform that badly (Freeman, 2004), or point out that there is no empirical evidence supporting the notion that the welfare states, even some large European ones, incur anything that can be sensibly called an 'economic cost' (Lindert, 2002).

Second, there are important theoretical arguments for not scaling down labour market regulation and social protection, but re-orienting them to become more suitable for the globalising world. In this view, social protection contributes decisively to economic performance (Atkinson, 1999).

2.5 Is globalisation 'good'?

The wide array of forces lumped under the heading 'globalisation' is no more a universal boon than it is a universal evil. The fact is that any policy response to new conditions in the international organisation of production needs to be based on a careful analysis that disentangles the often contradictory tendencies involved. For easier orientation, we can identify three dimensions that determine the impact of globalisation:

- the effect of various forces/forms of globalisation,
- the distribution of factor endowments, and
- institutional setting.

In the first place, as we have indicated in the previous section, globalisation is a complex phenomenon, involving changing patterns of trade, investment, financial flows and company behaviour. In addition, it heavily overlaps the shift to a post-industrial type of economy, with the attendant emphasis on flexibility and fast-paced innovation, and the decreasing relative importance, in the most-developed economies, of large-scale industrial operations based on a massified workforce employed in lifetime, assembly-line work.

Globalisation is certainly not manifested in the same way across countries. There are countries that trade a lot but have very little foreign investment (Japan). There are others where foreigners own more than half the economy but which are not major players in the manufactured products' global market, with trade largely confined to the immediate neighbourhood (Canada). And there are also countries with economies extremely open to exports and imports as well as to foreign investment – for example, some new EU member states, where trade openness exceeds 100% and foreign capital owns three-quarters of the economy (Hungary and Slovakia). On other dimensions of globalisation, for example the export of capital, they are, however, insignificant.

Furthermore, it is an obvious economic fact that the "distribution of income in a society depends on the distribution of income-generating assets or factors of productions – who owns the land and capital and how human capital is distributed in the labour force". And it also depends on the returns to these assets (Robinson, 2001, p. 9). Even though there are authors who stress that asset ownership is driven by efficiency (Grossman & Hart, 1986), this is hardly a realistic scenario, and not borne out by empirical evidence. "Different countries might have very different asset distributions despite identical preferences and technology" (ibid.).

In other words, radical redistributions of assets can change patterns of income for good. Robinson (op. cit.) cites the example of South Korea and Taiwan, both of which have very low income inequalities. Both countries underwent extensive land redistribution in the 1940s and 1950s, which changed forever the distribution of production factors and returns to them. In contrast, two Latin American countries, Guatemala and Costa Rica, have very different income patterns. As transportation costs fell in the 19th century, Americans and Europeans started mass importations of tropical products. While in Costa Rica, governments supported small farmers, in Guatemala, the elite engaged in a massive land grab. Today, Costa Rica has much lower income inequalities than Guatemala, which is otherwise a very similar economy. And income differences feed through into different human-capital formation profiles (Nugent & Robinson, 1998 and Engerman, Mariscal & Sokoloff, 1998). In 1900, 36% of adults were literate in Guatemala and 36% in Costa Rica. By 1950, the differences had widened: the figures were 30% and 80% respectively (Thorp, 1998, Tab. IX.2).

In general, Latin America is the region with the most unequal distribution of income in the world and education is the key component in understanding this distribution puzzle. Compared with a typical Far Eastern economy, the share of university graduates is actually higher in Latin America. At the same time, however, returns to university education are also higher in Latin America. This result is explained by the fact that "Asia spent a lot on eliminating the bottom tail of its educational distribution and universalising secondary education while Latin America let most of its youngsters leave school after primary [education], choosing instead to expand university coverage" (Morley, 2001, p. 16).

So, the impact of globalisation on economies depends how it is handled by domestic institutions (see Box 6). There is nothing to prevent governments from responding (Rodrik, 1997). But the political economy dimension is important (Robinson, 2001, pp. 10-11). In general, Latin American income inequalities have widened in the last decade. In Africa, likewise, governments have mostly failed to respond to globalisation. Social sector spending is usually badly targeted and often regressive (Castro-Leal et al., 1999 and Tsikata, 2001, p. 13). Furthermore, "Globalisation affects inequality when the distribution of assets is fixed and it can change the rates of return on different assets under an unchanged set of institutions and policies" (Robinson, 2001, p. 10).

Box 6. Is globalisation good or bad for the poor?

"Whether or not globalisation is pro-poor depends on how it occurs (sequencing, pace and government capacity) and on a government's response to it with supply-side and compensatory policies" (Tsikata, 2001, p. 13).

"One of the underlying components of inequality is distribution of earnings – the primary distribution, which is most closely connected with economic influences. In the short-run, this is determined by the interaction of three factors: the distribution of the ownership of factors of production (assets) and the interplay of supply and demand for those factors…The supply side is critical to understanding the process. In the short-run, the supply of factors is fixed so demand factors, such as growth strategy, macroeconomic conditions and structural economic reforms, have a dominant influence on relative earnings and the rate of return on capital and land" (Morley, 2001, p. 13).

"Globalisation may change relative prices, induce changes in the distribution of assets, and alter, or be used to alter, the political equilibrium in ways that affect inequality. The last effect is the most pernicious because it means that if globalisation increases inequality for either of the first two reasons, it may simultaneously alter the political equilibrium and stop the state compensating for these effects. The idea that globalisation bundles these forces together in a unique way that both increases inequality and removes the state's ability to compensate for it lies at the heart of the critique of globalisation" (Robinson, 2001, p. 11).

Of course, in the heterogeneous economies of Europe the impact of globalisation through the distribution of factor endowments might be much more subtle. Nevertheless, it should be studied. Especially in the highly fluid institutional structures of the recently acceded member states, globalisation can play an important role in determining the growth and governance paths of these societies.

In more complex Western societies, the typical political-economy dilemma of globalisation concerns gains from impediments to trade. While protectionism typically has a concentrated political constituency (for example, workers in steel plants facing competition from cheap imports), the gains from free trade are much more diffuse. This strengthens the tendency towards protectionism.

What really determines the impact of globalisation, then, seems to be the institutional setting and governance patterns in the country, i.e. largely non-economic factors. Economic growth often depends on a weakening of existing social safety nets, in particular on the weakening of personal networks of support. Growth thus simultaneously brings about the danger of backsliding, with some delay as erosion of risk-absorbing mechanisms needs time to take its toll. Alongside social protection in the narrow sense, healthcare is one of the key factors. In countries such as the US, more than half of the cases of people sliding into poverty are connected with healthcare costs. Some authors attribute the spectacular rise of Japan after World War II to a large degree to the government's provision of reliable and accessible healthcare (Krishna, 2006).

At the same time, governance sometimes becomes decisively shaped by inflows of FDI and through the role of MNEs (Kottaridi, 2005).

All in all, there is robust empirical evidence pointing at gains in material wealth that most countries have achieved by being part of globalisation processes. Globalisation can be convincingly pictured as an essentially beneficial phenomenon (Bhagwati, 2005). Nevertheless, it can be equally and poignantly shown that globalisation does produce, in material terms, winners and losers. If social policy is to contribute to sustainable economic growth, it must answer some of the challenges posed by globalisation (Held & Koenig-Archibugi, 2003).

3. Social risk management – The theory

This part of the paper is organised into two subsections. The first recapitulates standard arguments for public welfare policies. Contrary to widespread beliefs, redistribution among individuals is not the dominant feature of the welfare state. Most social protection mechanisms simply help individuals deal with risks and uncertainty, and by doing so affect redistribution over an individual's life course rather than among individuals. In dealing with uncertainty it is especially important to look at the role played by information asymmetries and information failure.

Then, the next section introduces three key concepts delineating new thinking about the welfare state. The role of social protection as a productive factor is described in a paper commissioned by the DG Employment and Social Affairs of the European Commission (Begg et al., 2004), in which a new methodology for the assessment of costs and benefits of welfare policies is outlined. The need to help individuals manage their transitions in the new world of flexible labour markets through transitional labour-market policies is elaborated in a paper by Gunther Schmid (2006). And finally, the section points to a World Bank (2000) paper that outlines a comprehensive framework for dealing with social risk management.

3.1 The standard theory of state intervention

Social policy means the public management of social risks. These risks can belong to different classes. Some are 'democratic' – for example old age infirmity. Others are more socially stratified, such as unemployment or poverty.

Individual risks become social for at least two reasons. First, the aggregate effect of them may have collective consequences. This result can make a case for policy that directly intervenes against a negative externality – for example keeping the poor out of abject poverty lest they resort to crime. But more dynamic effects are at stake too. Individuals without a safety net are likely, for example, to resist risky technological changes, which would otherwise improve economic output (Esping-Andersen, 1999, p. 37).

Second, the growing complexity of modern societies makes it difficult to deal with risks at an individual level. A person with a plot of land can easily manage his/her sustenance. A worker selling his/her labour is much more exposed to 'manufactured risks'. Modern societies inherently rely on weakening the personal ties that lock individuals in personal networks used for risk management (Granovetter, 1983).

The standard theory of the welfare state provides clear demarcation lines for dealing with social risks by markets and by public intervention. In reviewing it, the rest of this section is closely based on Barr (2001, pp. 1-29).

One of the functions of the welfare state is poverty relief. The other reason for the existence of social protection is to help individuals deal with risk and uncertainty. In fact, this latter function is dominant. In the UK, for example, two-thirds of welfare-state spending is life-cycle redistribution as opposed to one-third on poverty relief (ibid., 2001, p. 2), and the picture is similar in heavy welfare spenders such as Denmark (Sorensen, Hansen & Bovenberg, 2006).

The efficiency argument lies at the heart of thinking that stresses the inadequacy of viewing the welfare state as a mechanism for dividing a pie – the national income. It casts new light on notions such as the 'middle class capture' of the welfare state (Barr, 2001, p. 2).

Equally, the argument provides a clear underpinning of the role of the government. If an individual has to face greater insecurities today than in the past, it is quite likely that the role for the government (in the way of strategic intervention rather than everyday meddling) is even greater than in the past.

The welfare state is something often notoriously difficult to describe. We can identify at least three complicating issues (Glennerstener, 1997, ch. 1).

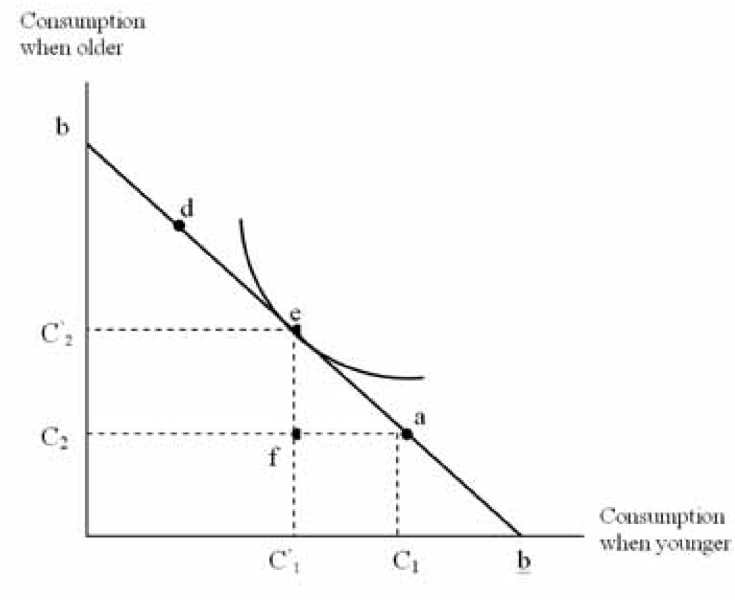
First, individual welfare is something sponsored by multiple sources: paid work, private saving and insurance, and voluntary welfare activities such as charity and government spending. Second, welfare services can be delivered either privately or as public goods. Third, the functionality of mechanisms is difficult to determine: expenditures that do not count as social protection – public health or the environment – actually have a lot to do with increasing welfare and are similar in mode of delivery.

On the other hand, the efficiency criterion allows us to take a broader and functionally rather clearly oriented view of public intervention.

The argument for public intervention can be illustrated by a simple three-step model. First, we introduce a situation of certainty and a rational consumer. Second, relaxing the assumption of certainty we let the consumer face risks. In the third and final step, we relax the assumption even further and introduce the world of uncertainty.

The welfare choices with certainty can be easily illustrated by the Fisher model (Figure 4). In the model, we have a person's potential consumption in younger years sketched along the horizontal axis, and the potential consumption in older years given by the vertical axis. From an initial endowment given by point *a*, s/he can consume C_1 units in period 1 and C_2 units in period 2. Borrowing or saving can increase his/her options. S/he could save, for example, C_1-C'_1 units of consumption in period 1 in exchange for C'_2-C_2 in period 2, which moves him/her to point *e*.

Figure 4. The Fisher model



Rational choice in the Fisher Model

Introducing risks does not change anything in this model. Risk is an event for which a probability distribution is known, in contrast to uncertainty, where it is not. With distributions known, risks can be pooled and insurance mechanisms organised. So, an individual can buy market-provided actuarial insurance, which allows him/her to preserve a preferred consumption pattern (Barr, 2001, p.13).

The real world is one of uncertainty, however, which can have at least three dimensions:

- imperfect information,
- behavioural uncertainty and imperfectly informed insurers, and
- external shocks – natural catastrophes, demographic change, etc.

The information dimension provides a key rationale for public intervention. Markets are good at absorbing only good risks (Barr, 2001, pp. 14-26 and Esping-Andersen, 1999, pp. 37-40). Social insurance is thus a natural response to information failure.

So, under conditions of uncertainty, we have a case for government intervention. Such intervention can take several forms – regulation, financing, public production and income transfers. But generally, policies should be based on two considerations: their theoretical quality and the effectiveness of their implementation.

Risks can be usefully classified, for social protection purposes, as falling into three categories: class risks, life-course risks and intergenerational risks (Esping-Andersen, 1999, pp. 40-43). The absorption of risks can be undertaken by mechanisms provided by the market, the welfare state and the family.

The discussion of how risks are managed has over time evolved into recognition that “studying just the welfare state leaves a huge ‘welfare residual unaccounted for’” – hence the novel practice of using the term ‘welfare regimes’ (ibid., 1999, p. 34). Representatives of this ‘second generation’ of welfare policy authors, who focused on the mix of public-private provision of welfare, include Stephens (1979), Myles (1984), Castles (1986 and 1993) and Esping-Andersen (1990).

Through these authors, a broader definition of social protection started to emerge, in which social policy simply means the management of social risks (Esping-Andersen, 1999, p. 36), in the framework of the ‘welfare triad’ of the state, the market and the family (ibid., p. 35).

3.2 New conceptual developments in social risk management

In this context, policy documents have begun to look at the wider picture of welfare provision (actors and modes of delivery involved – public or market, informal or formal) and also to stress social protection as a productive factor. Three recent theoretical developments that help to underpin this paradigm can be identified. A report for the DG Employment and Social Affairs of the European Commission (Begg et al., 2004), *The Costs of Non-Social Policy*, sketched out a methodology for the impact assessment of social protection that goes beyond the traditional cost-benefit analysis. Analytical and policy documents have also started adopting the framework of transitional labour markets (Schmid, 2006), which focus on helping people manage the risks related to transitions in a flexible labour market. The World Bank published a document that purports to establish a conceptual basis for analysing social protection as part of a wider social risk-management framework.

Viewing social protection as a productive factor is already a step in the direction of a wider risk-management framework (see Box 7).

Box 7. The case for social risk management

In a neoclassical analytical framework, one might point out that at the minimum the welfare state deals with externalities (e.g. less crime because of social benefits or a reduced risk of epidemics owing to effective universal healthcare). Other welfare state functions have even more direct economic effect, e.g. consumption smoothing in the case of pensions or income smoothing in the case of unemployment benefits. But this is not the whole story. *The provision of social benefits to a large extent actually makes entrepreneurial risk-taking possible*. Castells (1998) describes how even in Hong Kong, which is often depicted as a typical *laissez-faire* economy, the bankruptcy rate has always been roughly the same as in any other economy. Yet, if a person can rely on the safety net at least to the extent that a business failure does not mean a complete loss of food and shelter, s/he may be more willing to take reasonable individual risks. In this way, the state creates the sphere where things such as marginal utilities are calculable and can ultimately be expressed in a commodified and monetary form. This is similar to other state functions. The state sanctions limited liability (a relatively recent invention), and does not allow incarceration for personal debt (ditto). Both of these provisions move risks into the realm of commodified assets, whereby they become easily expressible in financial terms.

Econometric studies actually show that social protection expenditure cannot be seen as a ‘cost’ to the economy – and thus the welfare state looks like a free lunch (Lindert, 2002). In order to truly assess the impact of social policy, however, one needs to have a comprehensive framework in place for taking into account the various dynamic effects. Begg et al. (2004) attempt to do exactly that. Their approach towards the costs of non-social policy turns the question of costs around so that “it is the non-policy rather than policy that is under scrutiny” (ibid., p. i). This approach goes well beyond the scope of traditional cost-benefit analyses.

For some, using the term ‘risk management’ in place of social protection may sound like a strategy for doing away with the empathic side of welfare policy. Social responsibility, solidarity and concern for the community are sidelined as cold ‘management’ takes over. What remains is a policy orientation towards economic growth. Yet others disagree. Schmid (2006, p. 3) points out that the concept of risk management allows us to construct a “‘moral opportunity’ to reconsider where the new balance between solidarity and individual responsibility might lie”. Schmid’s transitional labour markets concept seeks to overcome various asymmetries in risk perception and “combine flexibility and security by establishing institutionalised ‘bridges’ at critical junctures in individuals’ working lives”.

Traditional definitions of social protection have several shortcomings, most notably they over-emphasise the role of the public sector and conceptualise the welfare state in terms of its costs. Also, through this lens the welfare state is rather narrowly defined (e.g. excluding education) and viewed through its segments. As a result, the need for a broader strategic outlook based on the congruence and overlapping aims of these policies is clouded.

The World Bank has thus come up with an aim of re-conceptualising social protection so that (Holzmann & Jorgensen, 2000, p. 3):

- it can be seen as a spring-board rather than an inelastic safety net that traps and holds people in certain social positions;
- it is seen not as a cost but as an investment in human capital formation; and
- the causes of poverty rather than the symptoms are taken care of.

Social risk management is in this context seen as a framework overlapping but not coterminous with social protection. Sound macroeconomic policy, good governance and access to education and healthcare help individuals manage risks but are not part of social protection mechanisms (see Box 8).

Box 8. Social protection and social risk management

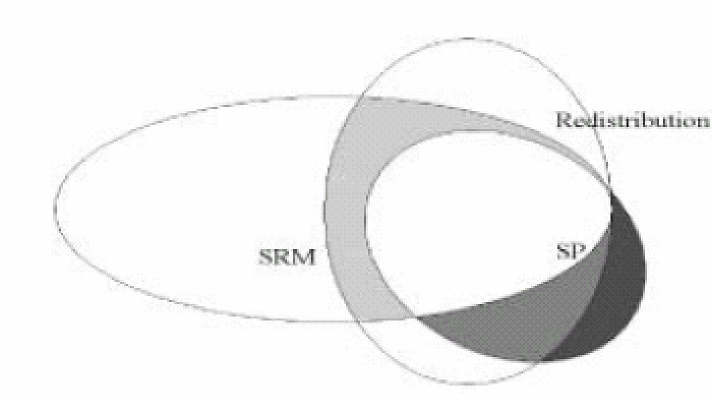
Overlapping circles – social risk management (SRM), social protection (SP) and redistribution

SRM, which exceeds the definition of SP in terms of

- macroeconomic policy
- good governance
- access to basic education and healthcare

SP, which exceeds the definition of SRM in terms of

- measures to support the critically poor



Source: Holzmann & Jorgensen (2000).

The social risk-management framework takes into account that various risk-management strategies can be employed. The first is to avoid risk or reduce the probability of running a certain risk. Second, the impact of risk can be mitigated by various mechanisms: assets can be diversified so as not to all fall victim to the same hazard; formal or informal insurance (e.g. the pooling of risks by a family) mechanisms can be employed; or income can be hedged (as in forward exchange rates or other derivative products, but elements of informal hedging can also be found in various partnership or networking strategies used by individuals). Third, once a risk materialises, people have to employ various measures to cope with it – dis-save, work more than expected, sell assets, etc. With few buffers, as with poor people without safety nets, individuals have to resort to strategies that often incur personal costs far greater than the impact the risk would normally warrant – e.g. resorting to crime or to damaging financial strategies (swapping one debt for another with a higher interest rate).

The framework also outlines the dimension of the formality of risk management mechanisms and the dimension of actors that engage in risk management (see Box 9). The framework recognises that there are far more risk-management interactions possible than simply the relationship of an individual with an employer and the state.

Adapting the framework to conceptualise the role of social risk management within economic growth, one can posit it in among the drivers of growth, which lead to increasing output but can also have much more direct impact as shocks, as shown in Box 10.

Box 9. Social risk management framework

• Risk management strategies	Reduction/avoidance	
	Mitigation	- Portfolio diversification
		- Informal and formal insurance
		- Hedging
	Coping	
• Level of formality	Informal	
	Market-based	
	Publicly provided or mandated	
• Actors	Individuals/households	
	Communities	
	Non-governmental organisations	
	Market institutions	
	Government	
	International institutions	

Box 10. Social risk management and drivers of change

Trade, technology, political system

↓ ↓

Growth (+,-) Shocks

↓ ↓

Social risk management:
- reduced vulnerability
- enhanced consumption smoothing
- improved equity

↓

Social impact

From a slightly different angle, the dynamic impact of social risk-management mechanisms on economic growth can be pictured as in Box 11.

Box 11. Dynamic impact of social risk management on growth

Social risk management

– Income/consumption smoothing

– Effectiveness and costs of informal provision   Economic growth

– Costs of public provision

In this framework, then, policies oriented towards endowments (in terms of education, health, social and human capital) rather than redistribution and policies aimed at life-course transitions rather than singular classes of risks become much more prominent than was the case with the old, narrowly defined social-protection framework.

4. Governance and competitiveness in a globalising world

4.1 Conceptualising 'competitiveness'

Competitiveness is a deeply controversial concept. It is a natural correlate of the rise of globalisation in public consciousness, understandably popular with policy-makers who seek to demonstrate to the electorate that they are doing *something* about stalling growth or other problems. The Clinton administration in 1990s, while going ahead with NAFTA, was particularly interested in engaging in occasionally protectionist or neo-mercantilist discourse. Public haggling with the Japanese over their trade surpluses with the US became prominent news stuff. A number of public intellectuals with strong links to academia (Laura Tyson, Robert Reich and Lester Thurow) provided ammunition for this, and President Bill Clinton picked some of them for posts in his administration.[5] Sometimes the issue was downright protectionism of established industries, as in the case of efforts to stop imports of cheap steel. But usually, promoting competitiveness was here equated with 'strategic intervention'. This concept is grounded in now standard economic theory, which, for example, seeks to explain the rationale for protecting those industries producing for markets with extraordinarily high entry costs but eventually high profits.[6] One of the best-known economists of today, Paul Krugman, has been particularly scathing of widespread 'strategic intervention' policies. He argues that 'competitiveness' is an essentially meaningless concept, at best clouding the whole rationale for gaining in welfare by producing what one is best at producing, at worst wasting money on promoting industries that are not even high value-added although the proponents of 'strategic intervention' tend to think they are (Krugman, 1994, pp. 256-67).

Nevertheless, the attractions of strategic intervention will never go away. First, there is the empirical evidence. For example, by the late 1960s, the US was clearly lagging behind other industrialised countries in producing and implementing innovation. The public funding of research was largely confined to NASA and military projects. Since then, however, public expenditure has clearly contributed to giving the US a head start in developing a knowledge economy. By having a universities-based computer network that started out as a publicly funded, military project (ARPANET), the US was easily poised to become the cradle of the

[5] Laura Tyson became Head of the Council of Economic Advisors and Robert Reich served as Secretary of Labour.

[6] Paul Krugman illustrates this concept developed by James Brander and Barbara Spencer with the example of strategic competition between Boeing and Airbus (1994, pp. 235-39).

Internet. The US Department of Defense significantly sponsored the infant semi-conductor industry in the 1960s. Federal money given to universities for use as loans and scholarships to attract students from all around the world has also been clearly beneficial. Some of the engineering and natural science departments are predominantly staffed by academics of non-US origin.[7] It was clearly these successes that inspired European policy-makers when they were drawing up the Lisbon agenda, which aims at making Europe the most competitive knowledge-based economy in the world by 2010.

The theoretical underpinnings of state intervention that seeks to improve a country's chances to gain from an international division of labour start with revisions to classical trade theories based on Ricardo. Theorists of the 'economics of QWERTY' (Paul David and Brian Arthur) long ago pointed out that countries often get locked into a certain economic position by fluke rather than by a natural development based on factor distribution. But if it is chance that determines competitive position, why not improve the prospects by intervention? The experience of East Asia shows that careful government intervention can create industries with high value-added and high welfare gains, out of almost nothing. Many authors speak of a 'socially created comparative advantage' as a contrast to comparative advantage based on the natural distribution of factor endowments, particularly of raw materials (Jessop, 2002, p. 119). It is the social creation of comparative advantages that is important in the world of knowledge-based economies. The welfare state should then be oriented towards serving the knowledge-based society rather than focused on providing old-fashioned insurance mechanisms fit for old, industrial economies (ibid., pp. 267-76).

The vague concept of competitiveness can be described as comprised of three dimensions: trade, investment flows and technology diffusion. These dimensions can be captured quantitatively – as when conceptualising globalisation in terms of the volumes of trade and investment flows. But qualitative analysis is probably equally desirable, especially if it is structurally based. Institutionalist analysis would look at the role of the principal agents in competitiveness: the role of MNEs in technology diffusion or the role of firms and governments, respectively, in the creation of comparative advantage.

Competitiveness here becomes closely related to the role of agents in finding the comparative advantage of a region or a country, enhancing its capabilities and building advantages that allow for the best welfare gains. Management and governance are important not only in creating capabilities but in sustaining them and helping to draw on them – two partners may equally gain from trade, but they may not equally make use of the advantages gained.

The related research agenda is understandably varied (Box 12). It encompasses economic geography. This interdisciplinary science tries to understand how technology clusters are formed or why and how certain industries tend to become geographically concentrated. Theories of the firm are equally important. Research into why firms exist, how they gain competitive advantages, how they drive knowledge creation and diffusion has a long pedigree.

[7] The long-circulating joke asks: Which are the best Russian universities? The answer: Stanford, MIT…

Box 12. Researching competitiveness

Competitiveness is a concept that broadly encompasses policies in the following areas:

- trade
- investment
- technology diffusion

It can have these dimensions:

- quantitative
- qualitative – structures and actors (e.g. governments and MNEs)

Some developments in economic theory that deal with issues related to competitiveness:

- Growth theories (e.g. endogenous growth theory)
- Trade theories
- Economic geography
- Theories of firms (e.g. why do firms exist and why do firms invest abroad)

How this feeds into the discussion on welfare and social protection is fairly obvious, and perhaps can be best summed up under two headings: *location* and *skills*.

Changing patterns in the international division of labour may have differential geographical effects. Compensating regions that lose out, in order to cushion them against welfare losses and help them find replacement for the production lost to other locations, is one form of policy response. Presumably, such reactive measures could be supplemented by more proactive policies. One of the key problems is having an economy flexible enough to create new jobs as some are lost to delocalisation.

The issue of skills is best viewed as one component of the conceptualisation of a modern, globalised welfare state where the supply-side becomes arguably more important than classical insurance mechanisms organised by the state to take care of transient unemployment problems. Lifelong learning is one of the key rallying calls of this new way of thinking, which emphasises that the typical post-war social policy was inordinately focused on the elderly (Esping-Andersen, 2006, p.1). This is in line with the thinking that social policy should broadly aim at helping individuals to manage risks, primarily by endowing them with the capabilities to do so, rather than focus exclusively on the narrow mechanisms of insurance, redistribution and consumption smoothing.

4.2 Issues in researching trade, investment and technology diffusion

It has already been mentioned that traditional theories of trade derived from Ricardo, while insightful, do not help to explain much about socially-created comparative advantages.

An interesting question in this context is why firms and countries actually trade (Storper, 1992, p. 65). Similarly, theoretical frameworks for explaining why firms invest abroad are by no means congruent (Barrell & Pain, 1997).

Recently, the new endogenous growth theory has come up with a comprehensive research agenda based on the break with the neoclassical tradition, which treats some decisive factors of growth – particularly technological change and human capital – as exogenous variables. This has led to interesting research into innovation patterns and regional development (Martin & Sunley, 1998).

The geographical dimension of competitiveness has prompted other authors to study knowledge diffusion based on the question of to what extent technological spillovers are local or global (Keller, 2002).

The answer is, partly, that it depends on the country; different countries have different technology absorption capabilities and exhibit a different permeability of borders to technology and types of investments that determine technology adoption (Kogut, 1991 and Malmberg, Sölvell & Zander, 1996). This variation contributes to the emergence of regional asymmetries owing to technology adoption (Giovannetti, 2000). A study by Barrell & Pain (1997) surveying FDI patterns after the establishment of the Common Market has documented that while the UK has been able to attract labour-intensive investments, Germany, France, Belgium and Ireland have been targets of more capital-intensive FDI and investors' affiliates in these countries clearly have a higher research intensity (ibid., p. 1777).

Spatial technological clustering and the local accumulation of knowledge cannot be studied without at least partial regard for the analysis of the firm as an agent of economic activity. Case studies help to highlight how the policies of the host country affect technology transfer to foreign subsidiaries (Basant & Fikkert, 1996, Supapol, 1995 and Siddhartan & Sfarian, 1997). The interaction between governments and MNEs as important actors in the diffusion of knowledge seems to be under-researched, at least in the case of developed countries, which is strange given the increasing role of MNEs and the rise in corporate consortia to organise research (Ostry, 1998, pp. 86 and 88). The MNE is also an important object of study since it seems to not only be an important conduit for technology diffusion but also of management patterns and culture. This is especially important given the fact that while firms do adapt to changing global market conditions, they adapt in different ways, and these ways of adaptation are often determined, despite all talk of globalisation, by the underlying nationality of the corporation (Pauly & Reich, 1997). Studies show that US firms, especially car manufacturers, typically invest less in human resources than their Japanese or European counterparts (MacDuffie & Kochan, 1995). Whereas Japanese car manufacturers start by investing in human resources and move only incrementally into sophisticated technology, US firms do the opposite (Flamm, 1988 and Stern, 1994). In general, the transfer of competitiveness may involve both 'soft' (human resources and management practices) and 'hard' transfers (machinery), and the mix and timing can have an important impact on local development and further patterns of knowledge diffusion (Ettlinger & Patton, 1996).

Policies aimed at improving competitiveness are thus coterminous with policies aimed at promoting the right innovation. Innovation can have several aspects (see Box 13) and the right mix is essential.

Box 13. How does innovation occur?

Entrepreneurial innovation can take several forms:

- the introduction of a new good or a modification of an existing good;
- the introduction of a new method of production;
- the opening of a new market;
- the conquest of a new source of supply of raw materials or intermediate goods; and
- the implementation of a new organisation of the entire branch of industry (for example establishing or breaking a monopoly).

Based on Lim (1990, p. 215), summarising Schumpeter (1934, pp. 129-35).

Storper (1992) argues that today leading edges of economic activity are organised to carry out continuous innovation, in what he terms product-based technological learning (PBTL). He draws up a PBTL framework to explain “why certain products are made in relatively few places” (ibid., p. 63). These places he calls “technology districts”. Traditional explanations of the occurrence of trade are based on factor cost differentials, economies of scale and technological mastery. According to Storper,

> In the standard trade theory, comparative advantage emerges either from the range of natural resources present in a given place or from reductions in relative costs of production owing to the choice of activities best adapted to the local factors mix. Yet when a product is subject to the conditions of perfect competition on which the standard Ricardian theory rests, there are ample reasons for expecting that, in today’s world, the proportion of its output that is traded will steadily diminish. This result, precisely the opposite of that predicted by the standard theory, emerges because the world of production has changed fundamentally since the time of Ricardo. *We now live in a world where factors of production for technologically stable products are not endowed, but produced as intermediate inputs.* Almost any developed country can become as efficient as the next country in a technologically stable manufacturing sector (emphasis added).

The diffusion time for standardised technologies has diminished as technological advancement has spread around the globe. This would mean that in markets with relatively low barriers to entry, something must make advantage possible in the face of rapid technological catch-up by competitors, to permit lasting advantages by firms or countries and trade to exist. Storper describes an endogenous form of dynamic technological advantage (PBTL), which permits the continuous reinvention, differentiation and reconfiguration of products.

Thus, “competition now takes a different temporal form than it did 30 years ago; instead of being intermittent and creating medium-term advantages, it has become more continuous, with much briefer temporal advantages” (ibid., p. 67).

‘Strategic intervention’ in promoting innovation has become an increasingly popular option around the world. What lies behind it is the understanding that “skill- and knowledge-based competition is now more dependent than before on resources that lie outside major firms”. Broader state intervention can have several objectives particularly relevant for the new globalising world (based on Jessop, 2002, p. 126):

- the establishment of legal forms for broad cross-national cooperation;
- input on the regulation of the international monetary system;
- the promotion of technology transfers;
- the management of frameworks for trade;
- input on defining the international regime for intellectual property rights; and
- the development and sustenance of regulation on labour migration.

States clearly have a key role in promoting innovation, technology transfer, creating mechanisms for technology adoption and building broader frameworks for the economy to benefit from R&D activities undertaken in specific locations of the economy (Archibugi, Howells & Michie, 1999, Dunning, 2000 and Petit & Soete, 1999). An important aspect of this process is a close integration of universities and the economy through market proxies and the overall subsumption of intellectual commons under competitiveness-driven activities organised by the state in cooperation with the academic world (Kelly, 1998, p. 77, Menzies, 1998, pp. 92-3 and 166-68). The state plays an important role in the transformation of knowledge from intellectual commons to private property (Aoki, 1998 and Dawson, 1998). Intellectual labour becomes established as wage labour-producing knowledge for the market (Schiller, 1988 and

1999). At the same time, the state engages in such old-fashioned public interventions as the sponsorship of R&D institutes and universities, or the establishment of research consortia. In today's economic conditions, the states that, from a long-term point of view, best help their citizens gain in welfare might be those that carefully identify the main drivers of growth and invest in them (Aiginger, 2005).

The importance of creating a knowledge society to underpin a knowledge-based economy is the basis for new thinking about the state broadly helping its citizens to manage their welfare. A shift from an emphasis on relatively rigid, mass-based, standardised welfare to individualised, life-course, broadly comprehensive 'workfare' now seems to be the decisive tendency underlying social protection reforms (Jessop, 2002, pp. 140-71). Education plays one of the key roles (Esping-Andersen, 2006).

4.3 Globalisation and governance

Governance mediates the impact of trade, investment and technology diffusion. It is therefore important to be aware of potential linkages between these drivers of economic growth and the welfare of individuals and communities. The causal diagram, however, is more complicated. Globalisation processes are not only mediated by governance, they also influence it.

The most obvious impact economic openness has on the administrative environment is on rent-seeking opportunities and their likelihood. Robust empirical evidence points at a strong correlation between increases in openness and a reduction of corruption. Three causal relationships can be identified as key: trade policy, competition by foreign producers and investors, and differences in institution-building costs and benefits (Bonaglia, Braga de Macedo & Bussolo, 2001, p. 9).

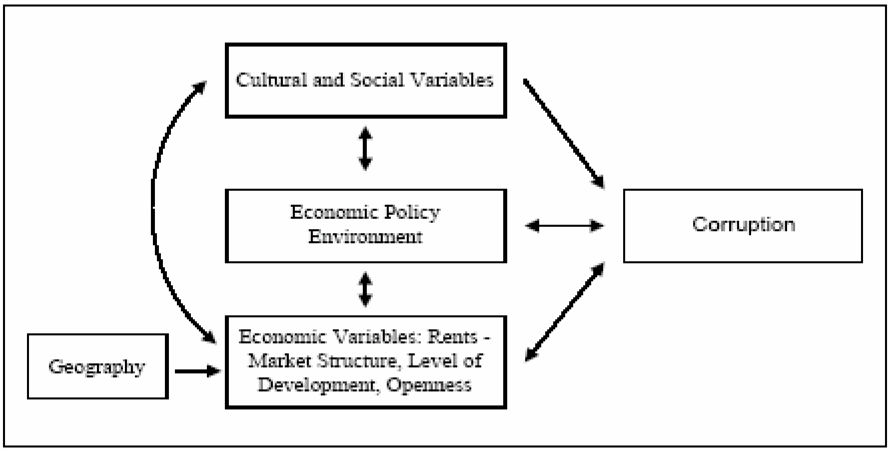
Increases in a country's trade are strongly related to increases in the size of its government (ibid., p. 13). In fact, public expenditure growth is correlated with the level of economic development and can be viewed as its natural consequence. Rodrick (1998) has constructed a model in which "government size provides an indirect insurance against risks originating from global markets" (Bonaglia, Braga de Macedo & Bussolo, 2001, p. 13). Turbulences caused by increased competition are absorbed by state-provided safety nets.

To conclude the cycle of observed empirical regularities, it is important to state also that open economies tend to grow faster (ibid.). To put it in the context of economic competition, "corruption thrives when monopoly power is combined with discretion and low accountability" (ibid., p. 14).

Of course, in real life this can present a 'catch 22' scenario, as high economic growth demands good quality institutions, where accountability is high and room for personal discretion low. Unless a certain momentum can be created for integrating a country into the international division of labour, governance might not improve. Yet integration might not be attained with bad governance.

A theoretical framework is desirable to help identify various types of rent-seeking activities and their attendant causal mechanisms. Krueger (1974) analyses rent-seeking in connection with tariffs and quotas. Bhagwati (1982) extends this analysis to identify an array of directly unproductive, profit-seeking activities. A more detailed and dynamic analysis is provided by Ades & Di Tella (1999), who discuss two opposing tendencies: larger rents resulting from an environment of low competition strengthen the position of the bureaucrats who extract them, but also make it more valuable to the society as a whole to increase transparency and monitoring. It is the net effect on corruption that is interesting to observe. This framework is extended by Wei (2000) (see Figure 5).

Figure 5. Determinants of corruption



Source: Bonaglia, Braga de Macedo & Bussolo (2001, p. 17) from Wei (2000).

It is clear, then, that receptiveness to the opportunities offered by globalisation depends on a particular political constellation within a country. But the impact of globalisation-related economic effects can also be mediated and manipulated by political actors. It is important to understand that globalisation a) has a differential impact on the population depending on the distribution of economic and political endowments and b) can provide political actors with different sources of power, which in turn may determine what kind of globalising processes the country will undergo.

Since globalisation changes returns to factor endowments and may change relative prices, it also changes the balance of power in a country and political actors can see it as a power resource. As Robinson (2001) points out, "it is no coincidence that the military regimes in Chile (after 1973) and Argentina (after 1976) were the first Latin American countries to embrace globalisation". Trade liberalisation weakened the power of labour-based domestic opponents, such as trade unions.

Globalisation "involves either rising or falling inequality" (Robinson, 2001, p. 18). In integrating a country into global trade, the rising returns to the abundant factor of production (as postulated by the Stolper-Samuelson Theorem) also increase the incentives to own it (ibid., p. 10). Again, the robustness of institutions is key for providing the opportunity to turn gains from trade into a process leading to equitable and sustainable growth.

5. Challenges for Europe

5.1 Globalisation, family failure and population ageing

The sources of pressure for change in European social-protection mechanisms come under three broad headings.

First, there are the pressures stemming from globalisation and the move to a more post-industrial economy. These issues have been the focus of this paper. Nevertheless, it is difficult to disentangle the effects of globalisation as such and some of the attendant repercussions that impact society at the same time.

Second, family structures are changing. The nuclear family can be relied upon less and less for helping individuals to absorb risks. It is particularly the countries belonging to whatever remains of Esping-Andersen's cluster of corporatist welfare states – with their focus on the male breadwinner – that are in the most urgent need of reform (Esping-Andersen, 2002). Incomplete households, unofficial cohabitation and multiple marriages throughout an individual's life – all of these change the landscape of social protection needs. But different life-course practices are also accompanied by different fertility patterns, most notably by postponing the birth of the first child or deciding not to have children at all. And, generally, the diversification of life-course practices as opposed to fairly uniform patterns observed in the past adds another dimension to the demand for making social protection systems more 'flexible'. Social protection, if it is to respond to these changes, would need to be more clearly life-course oriented.[8]

Third, there is the problem of demographic ageing. This stems from two factors. People live longer. And they have fewer and fewer children. Falling birth rates are a phenomenon observed practically everywhere in the developed, and, increasingly, the developing world. As countries grow richer, people have fewer children. And, as countries undergo major social transformations accompanied by the availability of birth control, birth rates plummet even more dramatically – as recently seen in Central and Eastern Europe (UNIFEM, 2006, Tab. 1.5).

Adverse demographics particularly affect the healthcare and pension systems. It also affects overall economic performance.

European populations will start stagnating between 2010 and 2020, and whatever economic growth is to be achieved after the latter date will have to come purely from rises in productivity (European Commission, 2005c, p. 28).

That, at least, is the scenario based on observed trends. A recent project sponsored by the European Commission, called DEMWEL[9] (Demographic Uncertainty and the Sustainability of Social Welfare Systems) has addressed the need for basing policies on demographic uncertainty rather than baseline forecasts, by drawing attention to probabilistic projections. Arguably, policies need to be made robust for any change, not simply tailored to the most pessimistic scenario.

The pressures on the welfare state translate in the public sphere into the debate on the reforms of the mechanisms of social protection and those that underpin the welfare state. Sometimes this can result in a string of parametric changes to the system, as seems to be the case with healthcare. In most other areas, however, the trend is to debate more paradigmatic changes, premised on a new balance of power and set of needs between the citizen and the state. Such is the case with reforms to not only the labour market, tax and pension systems but also those concerning childcare and education. Some of the radical reforms debated may not be feasible or warranted but the fact is that a lot of novel or re-born proposals come up. The following sections therefore briefly discuss the reform processes in these areas.

5.2 Unemployment

The persistence of high unemployment in a number of European countries is frequently identified as the key challenge for the EU, and increasingly ranks in first place in lists of priorities for social policy across the Union. In 2005, the Lisbon agenda was re-launched with a narrow focus on two areas: economic growth and employment (European Commission, 2005a).

---

[8] And consequently, modelling that underpins research on the sustainability of social protection systems needs to look more closely into the transitions in individuals' lives, rather than assuming fairly uniform patterns that are easy to aggregate. Recent examples include the MicMac model (van der Gaag, de Beer & Willekens, 2005).

[9] For further information on DEMWEL, see the ENEPRI website (www.enepri.org).

Empirical evidence that relates employment rates with labour market institutions is sometimes scarcer than the host of theoretical arguments (IMF, 2003, p. 129). Nevertheless, empirical studies (Nickell, Ochel & Quintini, 2001) and recent econometric exercises – for example using the IMF's Global Economy Model (IMF, 2003) – indicate that comprehensive labour market reforms can generate significant gains. At the same time, labour market institutions are a necessary component of market economies, given that labour markets cannot be, by definition, perfectly competitive (ibid., p. 130; Blanchard, 2002). They have an important risk-reducing role (Agell, 1999) and other economic rationales (Blanchard & Giavazzi, 2002).

Indeed, it is important to point out that European labour markets are not all that awful as some comparisons, especially with the US, want to indicate. They produce a lower dispersion of pay within the same narrowly defined skills groups. And, for example, lower employment among women compared with the US is to a very large extent related to the fact that US households rely much more on the marketisation of traditional household activities (Freeman, 2004).

Globalisation contributes to the destruction as well as creation of jobs. Recent studies on the relocation of production indicate that only 6% of job losses in the EU in the period 2002-05 resulted from the relocation or off-shoring of activities (Economic Policy Committee, 2005, p. 10).

There is a sense that globalisation contributes to instability in social relationships because of the pressure for fast changes in the labour market. On the other hand, long-term employment relationships, while still dominant, no longer convey a sense of security. It is often the flexibility of the labour market combined with extensive social protection that provides a better sense of security as well as higher quality of work (Auer, 2005).

Labour market reforms face a number of complications. Almost all net job creation today comes from service sector jobs. Between 1979 and 1993, the OECD countries lost (as an unweighted average) 22% of their manufacturing jobs (ibid.). Yet new jobs are not created fast enough to absorb de-industrialisation job losses in the same way as was done during the pre- and post-war de-ruralisation periods. Three dilemmas can be identified here.

First, the expansion of the tertiary labour market brings about a larger share of low-skilled services. Second, service sector expansion entails the well-known 'Baumol cost-disease effect' (Baumol, 1967). Third, a lot depends on household consumption choices since households can, in principle, often use household work as a substitute for services (Esping-Andersen, 1999, pp. 103-04).

De-industrialisation, of course, differs from country to country, with massive losses in some countries with uncompetitive industries such as in the UK or Spain, and much better adaptation in others, as in Germany, Denmark or Italy (ibid., 1999, p. 120).

Esping-Andersen (1999, pp. 117-19) promotes the idea of a 'new Keynesian household' to deal with job creation problems. The idea here is that policies that facilitate the spread of two-earner households create exactly the type of intensely service-consuming households that we need today.

Of course, the political economy of reforms is crucial here. Various industrial relations models vary in their receptiveness to change. The worst-case scenario, it seems, is where industrial organisations are strong but neither centralised nor capable of coordination, supporting militancy and strong gains for the insiders but neglect for the outsiders. "Economic performance is likely to be superior when either 'markets' or 'neo-corporatism' prevail" (ibid., 1999, p. 121). This view is supported, for example, by the theoretical studies of Lindbeck & Snower (1988a and 1988b) and the 'hump-shaped curve' hypothesis of macroeconomic performance (Calmfors & Driffill, 1988).

But which way should the reforms generally go? Some diagnose European problems as 'Eurosclerosis' and give the recipe as 'flexibilise!' (Siebert, 1997). Nevertheless, there is a difference here between the continental corporatist systems with rigid labour market policies and the Nordic systems with flexible labour markets but comprehensive social protection. The Swedish Rehn-Meidner model deliberately sought to reduce employment in uncompetitive industries (Esping-Andersen, 1999, p. 123). The Danish and the Dutch 'flexicurity' model (Wilthagen & Tros, 2004) has become the latest buzzword in the world of social protection.

In general, Scandinavia's triple accent on generous income guarantees, active labour market policy and welfare-state employment growth (Esping-Andersen, 1999, p. 123) seems to be a viable alternative to pure-market reforms. Scandinavian successes in employment and growth draw attention and inspire governments of countries that had traditionally been thought as belonging firmly in the 'liberal' camp (Giddens, 2005, pp. 109-10 and 112).

5.3 Pension reforms

Population ageing puts pressure on existing social-protection mechanisms. This tendency is most explicit in the form of the fiscal pressure on pay-as-you-go (PAYG) pension systems. As the ratio of the working-age population to the retired decreases, the lack of economic power to provide for the elderly manifests itself as the need for adjustment – an increase in contributions, a reduction of pensions or the raising of the retirement age. Shortfalls can be at least partly offset by rising productivity. That is why pension reforms would ideally address the challenge by effecting changes in a combination (or possibly all) of these areas: adjusting the statutory pension age in line with longevity gains, cutting overgenerous pensions and making contributions higher, ideally in absolute volume by promoting economic efficiency. Such changes can be accomplished by having a pension system that provides for the efficient allocation of assets (savings of the future retirees) in the economy and which provides the right labour market incentives.

At the same time, pension reforms involve important issues of fairness and justice. Reforms may be perceived as producing winners and losers, and finding the right social contract might not be easy, although some frameworks have been suggested (Myles, 2002).

The post-communist countries have often opted for a multiple pillar system[10] as recommended by the World Bank (1994) in a report that was later widely criticised for unreasonably extolling the virtues of the funded component (Stiglitz & Orszag, 1999, p. 9, Barr, 2001, p. 101 and World Bank, 2006a). In Western Europe, the most radical overhaul of a pension system has been undertaken by Sweden, which introduced a notional defined contribution (NDC)[11] system in 1999 (and a small, mandatory funded component). NDC has proven to be a generally popular reform option, also applied in Latvia and Poland for their PAYG pillars and recently adopted in Italy. The World Bank published a study (2006b) that generally looks highly favourably on this type of pension scheme.

---

[10] The first two pillars are mandatory. The first is a publicly organised PAYG scheme; the second consists of individual savings accounts administered by specially licensed pension companies, through which assets are invested in financial markets. The countries that have adopted this system are Hungary, Poland, Latvia, Estonia and the Slovak Republic (in chronological order by the date of starting the reform, from 1998 to 2004). Lithuania has a similar system, but with a fully voluntary option to split contributions between the two tiers. The third pillar should consist of supplementary, voluntary pension-saving, but in none of these countries is this component of any significance yet.

[11] NDC has also been referred to as 'non-financially defined contribution' systems in the latest World Bank terminology (2006b).

5.4 Reforming tax systems

The wider issue of incentives to work and a management of entrepreneurial and labour market risk of course covers taxation. The recent interest in some forms of guaranteed minimum income (GMI) taxation regimes, as well as growing interest in negative income taxation (which is one way of realising the GMI), as well as public discussions on the flat-rate income tax should not be overlooked in social protection debate, since taxation should be seen as a more or less integral part of welfare regimes.

A guaranteed minimum income is an idea that has been put forward by economists for a long time. It is based on an understanding of taxation as an incentive to work rather than the opposite. Under this concept, every individual in the society is entitled to a minimum income, whether s/he is in or out of work, thus avoiding the poverty trap. The minimum income replaces social transfers below this level. A standard tax rate is deducted at every source of income (Aglietta, 2000, pp. 444-45). The idea is usually associated with the Belgian economist Van Parijs, for whom it is directly related to the changing nature of work in the post-industrial age (Aglietta, 2000, p. 445). For this post-Keynesian approach, income should be seen as something separate from the nature of the individual job, owing to advances in collective productivity. The same instrument, however, is viewed in a different light by Aglietta, with work as the principal means of social integration.

A related concept is the one of negative income tax, first put forward by Milton Friedman four decades ago (1963).

Guaranteeing a certain minimum income as a way of reintegrating individuals into society is today being put on the agenda in countries that combine high unemployment with high labour costs.

This trend in policy-making coincides with the debate on the flat-rate tax, although here the focus of the discussion seems to be on the higher income strata (although in principle a guaranteed minimum income and especially a negative income tax system is basically a flat-rate system). In academic circles, the debates were sparked by the publication of Hall & Rabushka's *The Flat Tax* in 1985, re-published in 1995. More recently, the flat-rate personal income tax was introduced in four post-communist member states of the EU – Slovakia and the Baltic States (Slovakia is the only OECD country with this radical tax arrangement on a national scale). This move helped to bring the issue to wider attention in the European policy scene. In the last German general elections, the flat-rate personal income tax was associated with the Christian Democrats, when one of their economic experts strongly advocated it. Soon after the idea was floated in the UK by the Conservative Party.

5.5 Poverty and the issue of the underclass

Against the backdrop of discussions on the dismal performance of European labour markets, it is necessary to remember that the present unemployment is based on much higher participation rates than in the past. "Unlike before, we must now include women in the nation's full employment promise" (Esping-Andersen, 1999, p. 1). Irregardless of the widespread discussion about the efficacy of the welfare state, which started right after the post-war boom waned by the early 1970s, social protection has become more, not less, widespread since then.

Despite these advances, social protection challenges in Europe still include the old-fashioned issue of poverty. Absolute poverty has continued to decline practically uniformly across the EU and generally in the OECD countries in recent years, but relative poverty has been on the rise (Förster & d'Ercole, 2005). This development, again, is very much connected with problems in job creation (European Commission, 2005a, p. 5). Nevertheless, the issue of social exclusion and, sometimes, the downright creation of an underclass, cuts across various other aspects of social policy, and especially relevant to it are education policies (Esping-Andersen, 2006).

The problem of underclass might have some old-fashioned structural causes, but it manifests itself in many new ways. Many social risks are closely correlated with lifestyle habits. Examples include smoking or, in a post-scarcity society, overeating junk food. These habits are, in turn, closely correlated with social divisions (Giddens, 2005, p. 108). Obesity is usually the problem of the low-income strata and has become a serious issue, particularly in the UK, where legislative efforts are underway to ban junk food advertising.[12] Lifestyle policies are clearly becoming an important component of state intervention.

5.6 Investing in the future – Childcare and schooling

Childcare is crucial for women's employment. Econometric evidence suggests that if the supply of childcare were to increase by 20 percentage points for countries such as Germany, Italy, Spain or the Netherlands, women's employment could post a gain of as much as 10 percentage points (Esping-Andersen, 1999, p. 59). Childcare is indeed a crucial but often neglected aspect of social policies. The Barcelona European Council in the spring of 2003 addressed the issue by setting quantitative targets, aiming at providing childcare facilities for 90% of children aged between 3 years and the mandatory school age, and for 33% of children under three years old. The latter is very far from being attained in most EU countries. Initiatives could include 'daddy days' and 'baby bonds' (Ferrera, 2005, p. 33).

Yet such EU-sponsored initiatives seem a tall order. "Child benefits and services are not mentioned at all in any of the objectives that guide the 'open coordination' processes" although it would seem natural to include childcare under social inclusion policies (ibid., p. 31).

Adequate child benefits and services thus cut across the wider array of employment-cum-growth and social inclusion processes. And they seem directly pertinent to the issue of 'adverse demographics'. The Scandinavian countries and France have relatively high birth rates, and these are precisely the countries that provide comprehensive benefits and services connected with childcare (Giddens, 2005, p. 112).

At the same time, the issue of reforming European education (particularly university), systems to make them more globally competitive has also resonated in the public debate (Lambert & Butler, 2006).

5.7 Reconceptualising the welfare state

The prototypical client of the post-war, industrial welfare state was an unskilled or semi-skilled male manufacturing worker, often the sole breadwinner of the family. The main risk for the family was that the breadwinner would lose his job. The accent was therefore on job protection and income maintenance. Risks of poverty were mostly related to children in large families and people in old age. Hence policies aimed at providing family allowances and pensions. Lone motherhood, the risks associated with labour mobility, re-training needs, youth unemployment and long-term unemployment were never assumed. Life-course risks were mostly a simple question of consumption smoothing, with brief periods of unemployment covered by insurance. Inter-generational risks were deemed to be overcome by steadily rising productivity.

New risks include de-skilled workers, the new underclass in a 'two-speed society', 'welfare mothers' and so on.

---

[12] See Patrick Wintour, "Radical moves to tackle obesity crisis", *The Guardian*, 16 June 2006.

The social risk challenges can be formulated as issues of potential traps (Esping-Andersen, 1999, p. 5). One is the 'low-fertility equilibrium' emerging from the pressure on women to combine career and family roles. Another is the potential 'low-wage, low-skill equilibrium' that may arise from extensive labour-market deregulation. Yet so far, it seems that the issue of de-skilling has not been given a systematic, EU-wide analysis.

There are two distinctively different strategic responses to the 'equality/jobs trade-off' (Soskice, 1994). In 'uncoordinated economies', wage adjustments and weakened employee protection resulted in rising inequalities. This model seems particularly vulnerable to the low-skills equilibrium. On the other hand, 'coordinated economies' moved in the direction of high-quality, well-remunerated production that privileges the core, stable workforce of highly skilled and highly productive workers. The Nordic countries, of course, fall in between these two polar opposites. Not so long ago (Esping-Andersen, 1999, p. 152), some commentators were pronouncing the Scandinavian third way as 'stranded'. Today, as we have seen, 'the Nordic model' seems to be the talk of the town again.

How is Europe dealing with the new challenges? Different welfare regimes promote different institutionalised mindsets, which in turn produce different responses to social pressure. A simple but insightful story is told by Esping-Andersen, featuring three actors: *Homo liberalismus*, *Homo familius* and *Homo socialdemocraticus* (1999, pp. 170-74). In a similar vein, Held & Koenig-Archibugi (2003) have suggested four classes of respondents to globalisation: the *sceptics* (who do not believe any significant changes are needed); the *de-regulators* (who believe the welfare state needs to be rolled back as a response to globalisation); the *reversers* (the anti-globalists who believe there is need to organise resistance to the phenomenon); and the *internationalists* (who believe an internationalisation of politics is needed to help deal with the adverse effects of economic liberalisation).

The EU certainly has been developing a certain drive towards establishing some common aspects of social protection policy, which has also formed part of the Lisbon strategy (European Commission, 2005b). Key here is the expanding set of governance and meta-governance capacities, which are becoming increasingly salient despite the fact that formally the national states retain sovereignty in welfare state policies (Scharpf, 2002). These capacities arose out of the Union's coordinating role for economic policies, and it is therefore perhaps not surprising that some commentators can note how "the emergence of social policy at the European level tends to assume a workfare rather than a welfare orientation" (Jessop, 2002, p. 207).

The dominant tone of current policy-making at the European level is seen by some as "not so much social integration but rather the instrumentalisation of policy as a resource for competition oriented structural change" (Deppe, Felder & Titow, 2000).

This policy direction seems to be partly the result of analysts and policy-makers being at a loss for solutions and shy about promoting any specific comprehensive policies. Thus, in the view of some commentators "the social dimension of the Lisbon agenda" for example, "has fallen into the hands of specialized circles of 'insiders'", and social justice is often just being paid lip service (Ferrera, 2005, p. 34). Anthony Giddens has stated this quite strongly: "Although the Lisbon Agenda, Sapir report, Kok report and other similar contributions all talk about the ESM [European social model], social exclusion and so on, they have little to say about them in a direct way. They lack a systematic discussion of how the innovations they propose can be reconciled with *social justice* and *welfare*" (Giddens, p. 103, emphasis in the original). He similarly criticises the Commission's 2005 Communication on the Social Agenda for lack of analysis of "changing patterns of class, inequality and social division".

Giddens goes on to propose a positive welfare programme replacing the negative of Beveridge's 'evils': "In place of Want, personal autonomy; not avoidance of Disease, but active health;

instead of Ignorance, education, as a continuing part of life; rather than Squalor, prosperity; and in place of Idleness; initiative" (Giddens, 2005, p. 105). The state that he pictures is an agency underpinning paths to prosperity:

> Rather than the 'welfare state', we should speak of a society of positive welfare, in which the state plays a central, but not a dominating, role. The state is primarily a social *investment* and *regulatory* agency. Many over recent years have talked of the welfare state as an enabling force, but it is better to speak of the *ensuring state* in the positive welfare society. An ensuring state is one that enables – one that uses social investment whenever possible to help people to help themselves (ibid., p. 106).

Europe has recently added significant policy tools for strengthening social protection, in addition to earlier structural and cohesion policies. With the advent of the economic and monetary union, the European Employment Strategy and other policies related to the Lisbon process such as the open method of coordination came into being. The most recent addition is the Globalisation Adjustment Fund. For some, as we have seen, this is not enough. Yet the Union undeniably has a social dimension. Despite the differences within the European social model, Begg & Berghman (2002) point out that it still entails shared values that make common approaches feasible. These values couple social norms with economic requirements. As Begg & Berghman (ibid., p. 183) state, the minimum wages and benefits established by EU member states implicitly set minimum productivity requirements. The European social model is alive but needs to deepen the dynamic approach to policies. From a life-course perspective, investing in the health and education of children contains social expenditures later on and creates a good framework for an effectively functioning market. "The focus on capabilities means that the state, as well as the market, must promote the development of each person's capabilities to work in the context of that [which] a person values" (ibid., p. 185).

6. Conclusions

This literature review has attempted to sum up the main challenges facing policy-makers when responding to the pressures of globalisation.

The paper has first pointed out that globalisation has many forms. Changing patterns of trade, investment and technological development can be captured quantitatively, but a degree of structural analysis is also needed, to identify the roles of the main actors in the relevant processes. Here, many authors point at the rising saliency of the multinational enterprise, as a symptom of globalisation as well as a driver of trade, investment and technological changes.

Second, the paper has identified the range of theoretical issues involved in the conceptualisation of social protection for today's world. It has highlighted recent contributions to the growing volume of literature on 'social risk management'. This term denotes the understanding that the welfare of individuals is enhanced by the right mix of market and state-based risk-management mechanisms that go beyond the narrowly defined concept of social protection that dominated policy-making for most of the post-war era. That era has come to an end. Not only are we observing changes in the economic sphere, in which the large manufacturing operations based on a massified workforce employed in assembly-line work are becoming less and less significant. The social sphere is changing too. People no longer live predominantly in nuclear families, having children at a fairly predictable age, facing only transient problems with employment that are easily dealt with through unemployment insurance. In a society where a bad mix of skills can lead to lifelong poverty, premiums on good education and lifelong learning opportunities rise. Social risk management is closely related to the notion of social protection as a productive factor. The more effectively a society lets the individual manage his/her risks, the higher are the welfare gains for all.

Third, the paper has listed some of the literature highlighting the link between or relevant to policies aiming at increasing ‘competitiveness’ and the impact on the welfare of individuals.

Finally, the paper has summed up the concrete challenges for, and some of the most recent developments in, the sphere of social protection in Europe.

Bibliography

General

Atkinson, T. (1999), "Macroeconomics and the social dimension", in *Experts Discuss Some Critical Social Development Issues*, Division for Social Policy and Development, United Nations, New York.

Aiginger, K. (2005), "Towards a new European model of the reformed welfare state: An alternative to the United States Model", *UN Economic Survey of Europe*, No. 1, United Nations, New York.

Agell, J. (1999), "On the benefits from rigid labour markets: Norms, market failures, and social insurance", *Economic Journal*, Vol. 109, February, pp. 143-64.

Aglietta, M. (2000), *A Theory of Capitalist Regulation: The US Experience*, London: Verso.

Auer, P. (2005), *Protected Mobility for Employment and Decent Work: Labour Market Security in a Globalised World*, ILO, Geneva, January.

Baumol, W. (1967), "Macroeconomics of unbalanced growth: The anatomy of the urban crisis", *American Economic Review*, Vol. 57, No. 3, pp. 415-26.

Barr, N. (2001), *The Welfare State as Piggy Bank*, Oxford: Oxford University Press.

Begg, I. and J. Berghman (2002), "EU social (exclusion) policy revisited?", *Journal of European Social Policy,* Vol. 12, No. 3, pp. 179-94.

Begg, I. et al. (2004), *Costs of Non-Social Policy: Towards an Economic Framework of Quality Social Policies – And the Costs of not Having Them*, report for the DG for Employment and Social Affairs, European Commission, Brussels.

Bell, D. (1973), *The Coming of the Post-Industrial Society,* New York: Basic Books.

Blanchard, O. (2002), "Designing Labour Market Institutions", unpublished paper, MIT, Cambridge, MA (retrieved from http://econ-www.mit.edu/faculty/blanchar/papers.htm).

Blanchard, O. and F. Giavazzi (2002), "Macroeconomic Effects of Regulation and Deregulation in Goods and Labour Markets", unpublished paper, MIT, Cambridge, MA (retrieved from http://econ-www.mit.edu/faculty/blanchar/papers.htm).

Bhagwati, J. (2005), *In Defense of Globalization,* Oxford: Oxford University Press.

Boeri, T. (2006), *Migration Policy and the Welfare State*, paper prepared for the Conference Reinventing the Welfare State, The Hague, 27-28 April.

Boeri, T., A. Börsch-Supan and G. Tabellini (2001), "Would you like to shrink the welfare state? Welfare state reform: A survey of what Europeans want", *Economic Policy,* 32, April.

Bonilla Garcia, A. and J.V. Gruat (2003), *Social Protection,* ILO, Geneva.

Bordo, M.D., A.M. Taylor and J.G. Williamson (eds) (2003), *Globalisation in Historical Perspective,* Chicago: University of Chicago Press.

Calmfors, L. and J. Driffill (1988), "Bargaining structure, corporatism and macroeconomic performance", *Economic Policy,* 6, April, pp. 13-61.

Carr, M. and M. Che (2004), *Globalisation, social exclusion and work – With special reference to informal employment and gender*, Working Paper No. 20, World Commission on the Social Dimension of Globalisation, ILO, Geneva.

Castles, F. (1986), *Working Class and Welfare*, London: Allen and Unwin.

————— (ed.) (1993), *Families of Nations*, Dartmouth: Aldershot.

Castells, M. (1998), *End of Millennium, the Information Age: Economy, Society and Culture*, Vol. III, London: Blackwell.

————— (2000), "Toward a sociology of the network society", *Contemporary Sociology*, Vol. 29, No. 5, September, pp. 693-99.

Castro-Leal, F., J. Dayton, L. Demery and K. Mehra (1999), "Public Spending in Africa: Do the poor benefit?", *The World Bank Research Observer*, Vol. 14, February, pp. 49-72.

Cazes, S. and A. Nesporova (2001), *Towards Excessive Job Insecurity in Transition Countries?*, Employment Paper No. 2001/23, ILO, Geneva.

————— (2004), *Labour Markets in Transition, Balancing Flexibility and Security in Central and Eastern Europe*, ILO, Geneva.

Czarniawska, B. and G. Sevón (eds) (1996), "Introduction", in *Translating Organisational Change*, Berlin: de Gruyter, pp. 1-13.

Deppe, F., M. Felder and S. Titow (2000), *Structuring the State – The Case of European Employment Policy*, paper presented at the International Conference Linking EU and National Governance, Mannheim, June.

Economic Policy Committee (2005), *Responding to the Challenges of Globalisation*, DG for Economic and Financial Affairs, European Commission, Brussels.

Engerman, S.L., E. Mariscal and K.L. Sokolof (1998), "Schooling. Suffrage and the Persistence of Inequality in the Americas", unpublished paper, Department of Economics, UCLA.

Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Cambridge: Polity Press.

————— (1999), *Social Foundations of Post-Industrial Economies*, Oxford: Oxford University Press.

————— (2002), "Towards the good society, once again?", in G. Esping-Andersen, D. Gallie, A. Hemerijck and J. Myles, *Why We Need a New Welfare State*, Oxford: Oxford University Press.

————— (2006), *Families, Government and the Distribution of Skills*, paper presented at the Conference on Reinventing the Welfare State, The Hague, 27-28 April.

European Commission (2005a), *Joint Report on Social Protection and Social Inclusion*, COM(2005) 14 final, European Commission, Brussels, 27.01.05.

————— (2005b), *The Economic Costs of Non-Lisbon: A survey of the literature on the economic impact of Lisbon-type reforms*, Commission Staff Working Document No. 16, Brussels, DG for Economic and Financial Affairs, European Commission, Brussels.

————— (2005c), *The Economic Impact of Ageing Populations in the EU-25 Member States*, DG for Economic and Financial Affairs, European Commission, Brussels.

Ferrera, M. (2005), "The caring dimension of Europe: How to make it more visible and more vigorous", in *The Hampton Court Agenda: A Social Model for Europe*, London: Policy Network, pp. 27-36.

Fischer, S. (2003), "Globalization and its challenges", *American Economic Association Papers and Proceedings*, 93, pp. 1-30.

Friedman, M. (1963), *Capitalism and Freedom*, Chicago: University of Chicago Press.

Förster, M. and M.M. d'Ercole (2005), *Income Distribution and Poverty in the OECD Countries in the Second Half of the 1990s*, OECD Social, Employment and Migration Working Papers No. 22, OECD, Paris.

Freeman, R.B. (2004), "Are European labour markets as awful as all that?", CESifo Forum 1/2004, CESifo, Munich.

Freeman, R.B. and R. Schettkat (2005), "Marketization of household production and the EU-US gap in work", *Economic Policy*, Vol. 20, No. 41, pp. 6-50.

Giddens, A. (2002), *Runaway World: How Globalisation is Reshaping our Lives*, London: Routledge.

————— (2005), "Debating the social model: Thoughts and suggestions", in *The Hampton Court Agenda: A Social Model for Europe*, Policy Network, London, pp. 95-150.

Giersch, H. (1985), *Eurosclerosis*, Kiel Discussion Paper No. 112, Institut für Weltwirtschaftsforschung, University of Kiel.

Glennerstener, H. (1997), *Paying for Welfare: Towards 2000*, 3rd edn., Hemel Hempstead: Prentice Hall/Harvey Wheatsheaf.

Glyn, A. (2003), *Labour Market Deregulation and Europe's Employment Problems*, discussion paper prepared for the AEA/URPE session in Washington, January.

Grahl, J. and P. Teague (1997), "Is the European social model fragmenting?", *New Political Economy*, Vol. 2, No. 3, pp. 405-26.

Granovetter, M.S. (1983), "The strength of weak ties: A network theory revisited", in *Sociological Theory*, Vol. 1, New York: Routledge.

Grossman, S.J. and O.D. Hart (1986), "The costs and benefits of ownership. A theory of vertical and lateral integration", *Journal of Political Economy*, Vol. 94, pp. 691-719.

Guttman, R. (2002), "Money and credit in regulation theory", in R. Boyer and Y. Saillard (eds), *Regulation Theory: The State of the Art*, London: Routledge, pp. 57-63.

Hall, R.E. and A. Rabushka (1995), *The Flat Tax*, 2nd edn., Stanford: Hoover Institution Press.

Held, D. and M. Koenig-Archibugi (2003), *Taming Globalization: Frontiers of governance*, Cambridge: Polity Press.

Holzmann, R. and E. Palmer (eds) (2006), *Pension Reform, Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes*, World Bank, Washington, D.C.

IMF (2003), "Unemployment and labor market institutions: Why reforms pay off," *World Economic Outlook*, April, pp. 129-50.

Jessop, B. (2002), *The Future of the Capitalist State*, Cambridge: Polity Press.

Kottaridi, C. (2005), "FDI, growth, and the role of governance: Changing the rules of the game", *Contributions to Political Economy – Special Issue on Globalisation and Governance*, Vol. 24, pp. 79-98.

Krishna, A. (2006), "Reversal of fortune: Why preventing poverty beats curing it", *Foreign Policy*, May/June.

Krugman, P. (1994), *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations,* New York: W.W. Norton and Co.

Lambert, R. and N. Butler (2006), *The Future of European Universities: Renaissance or Decay?,* policy pamphlet, Centre for European Reform, London, June.

Leyshon, A. and A. Tickell (1994), "Money Order? The discursive construction of Bretton Woods and the making and breaking of regulatory space", *Environment and Planning,* Vol. 26, No. 12, December, pp. 1861-90.

Lindbeck, A. (1994), "The welfare state and the employment problem", *American Economic Review,* May, pp. 71-5.

Lindbeck, A. and D.J. Snower (1988a), *Inter-Industry Wage Structure and The Power Of Incumbent Workers*, Papers 418, International Economic Studies, Stockholm.

————— (1988b), "Cooperation, harassment, and involuntary unemployment: An insider-outsider approach", *American Economic Review,* American Economic Association, Vol. 78, No. 1, March, pp. 167-88.

Lindert, P.H. (2002), "Why the Welfare State Looks Like a Free Lunch?", Seminar presentation at Harvard University.

Majid, N. (2001), *Economic Growth, Social Policy and Decent Work,* Employment Paper No. 2001/19, ILO, Geneva.

McLuhan, M. (1962), *The Gutenberg Galaxy,* Toronto: University of Toronto Press.

Murray, C. (1984), *Losing Ground,* New York: Basic Books.

Myles, J. (1984), *Old Age in the Welfare State*, Boston: Little, Brown.

————— (2002), "A new social contract for the elderly?", in G. Esping-Andersen, D. Gallie, A. Hemerijck and J. Myles, *Why We Need a New Welfare State,* Oxford: Oxford University Press.

Nickell, S., W. Ochel and G. Quintini (2001), *The Beveridge Curve, Unemployment and Wages in the OECD from the 1960s to the 1990s,* CEP Working Paper No. 502, London School of Economics, London.

Nugent, J.B. and J.A. Robinson (1998), "Are Endowments Fate?", unpublished paper, Department of Political Science, University of California at Berkeley.

OECD (2005), *OECD Economic Globalisation Indicators,* OECD, Paris.

Palier, B. and R. Sykes (2000), "Challenges and changes: Issues and perspectives in the analysis of globalisation and the European welfare states", in R. Sykes, B. Palier and P.M. Prior (eds), *Globalisation and the European Welfare State: Challenges and Change,* Basingstoke: Palgrave, pp. 1-16.

Phelps, E. and G. Zoega (2004), "The routes to better economic performance in continental Europe", *CESifo Forum,* 1/2004, CESifo, Munich.

Pierrard, O. and H.R. Sneessens (2004), "Aggregate unemployment and relative wage rigidities", *CESifo Forum,* 1/2004, CESifo, Munich.

Rodrik, D. (1997), *Has Globalization Gone Too Far?,* Institute for International Economics, Washington, D.C.

————— (1998), "Why do more open economies have bigger governments?", *Journal of Political Economy*, Vol. 106, pp. 997-1032.

Scharpf, F.W. (2002), “The European Social Model: Coping with the challenges of diversity”, *Journal of Common Market Studies*, Vol. 40, No. 4, pp. 645-70.

Scharpf, F.W. and V.A. Schmidt (2000), “Introduction”, in F.W. Scharpf and V.A. Schmidt (eds), *Welfare and Work in the Open Economy, From Vulnerability to Competitiveness*, Vol. I, Oxford: Oxford University Press.

Siebert, H. (1997), *Labour Market Rigidities and Unemployment in Europe*, Kiel Discussion Paper No. 787, Institut für Weltwirtschaftsforschung, University of Kiel.

Sorensen, P.B., M.I. Hansen and A.L. Bovenberg (2006), *Individual Savings Accounts and the Life-Cycle Approach to Social Insurance*, paper presented at Conference on Reinventing the Welfare State, The Hague, 27-28 April.

Soskice, D. (1994), “Reconciling markets and institutions: The German apprenticeship system”, in L. Lynch (ed.), *Training and the Private Sector*, Chicago: University of Chicago Press.

Stephens, J. (1979), *The Transition from Capitalism to Socialism*, London: Macmillan.

Stiglitz, J.E. (2002), *Globalization and its Discontents*, New York: W.W. Norton.

Stiglitz, J.E. and P.R. Orszag (1999), *Rethinking Pension Reform: Ten Myths about Social Security Systems*, paper presented at the Conference on New Ideas about Old Age Security, World Bank, Washington D.C., 14-15 September.

Strange, S. (1986), *Casino Capitalism*, London: Basil Blackwell.

————— (1994), *States and Markets: An Introduction to International Political Economy*, London: Continuum.

Taylor, P. (2001), “The United Nations and International Order”, in J. Baylis and S. Smith (eds), *The Globalization of World Politics*, Oxford: Oxford University Press, pp. 331-55.

Thorp, R. (1998), *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*, Baltimore, MD: Johns Hopkins University Press.

Tyson, L. (1987), *Creating Advantage: Strategic Policy for National Competitiveness*, BRIE Working Paper, Berkeley Round Table on International Economy, University of California, Berkeley.

UNIFEM (2006), *Women and Employment in Central and Eastern Europe and the Western Commonwealth of Independent States*, United Nations Development Fund for Women, Bratislava.

Van der Gaag, N., J. de Beer and F. Willekens (2005), *MicMac: Combining Micro and Macro Approaches in Demographic Forecasting*, paper presented at the Joint Eurostat-ECE Work Session on Demographic Projections, Vienna, 21-23 September.

Wilthagen, T. and F. Tros (2004), “The concept of ‘flexicurity’: A new approach to regulating employment and labour markets”, *Transfer, European Review of Labour and Research*, Vol. 10, No. 2, summer, pp. 166-86.

World Bank (1994), *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*, World Bank, Washington D.C.

————— (2006a), *Pension Reform and the Development of Pension Systems, An Evaluation of World Bank Assistance*, Independent Evaluation Group, World Bank, Washington, D.C.

——— (2006b), *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes*, World Bank, Washington D.C.

Special projects on the impact of globalisation

Bonaglia, F., J. Braga de Macedo and M. Bussolo (2001), *How Globalisation Improves Governance*, OECD Development Centre Working Paper No. 181, OECD, Paris.

Dollar, D. (2001), *Globalisation, inequality and poverty since 1980*, Development Research Group, World Bank, Washington D.C., November.

Gunter, B.G. and R. van der Hoeven (2004), *The Social Dimension of the Globalization: A Review of the Literature*, Working Paper No. 24, World Commission on the Social Dimension of Globalization, ILO, Geneva.

International Labour Office (2004), *A Fair Globalization: Creating Opportunities for All*, Final Report, World Commission on the Social Dimension of Globalization, ILO, Geneva.

Kayizzi-Mugerwa, S. (2001), *Globalisation, Growth, and Income Inequality: The African Experience*, OECD Development Centre Working Paper No. 186, OECD, Paris.

Morley, S.A. (2001), *Distribution and Growth in Latin America in an Era of Structural Reform: The Impact of Globalisation*, OECD Development Centre Working Paper No. 184, OECD, Paris.

Reisen, H., M. Grandes and N. Pinaud (2005), *Macroeconomic Policies: New Issues of Interdependence*, OECD Development Centre Working Paper No. 241, OECD, Paris.

Richardson, P. (1997), *Globalization and Linkages: Macro-Structural Linkages and Opportunities*, OECD Economic Studies No. 28, OECD, Paris.

Robinson, J.A. (2001), *Where Does Inequality Come From? Ideas and Implications for Latin America*, OECD Development Centre Working Paper No. 188, OECD, Paris.

Tsikata, Y. (2001), *Globalisation, Poverty and Inequality in Sub-Saharan Africa: A Political Economy Appraisal*, OECD Development Centre Working Paper No. 183, OECD, Paris.

World Bank (2000), *Poverty in an Age of Globalisation*, World Bank, Washington D.C., October.

Social risk management and social protection as productive factor

Begg, I. et al. (2004), *The Costs of Non-Social Policy*, DG for Employment and Social Affairs, European Commission, Brussels.

Holzmann, R. and S. Jorgensen (2000), *Social Risk Management: A New Conceptual Framework for Social Protection and Beyond*, Social Protection Discussion Paper No. 0006, World Bank, Washington D.C., February.

Schmid, G. (2006), "Social risk management through transitional labour markets", *Socio-Economic Review*, Vol. 4, No. 1, pp. 1-33.

Globalisation and competitiveness

Ades, A. and R. Di Tella (1999), "Rents, competition and corruption", *American Economic Review*, Vol. 89, No. 4.

Aoki, K. (1998), "Considering multiple and overlapping sovereignties: Liberalism, libertarianism, national sovereignty, 'global' intellectual property, and the Internet", *Indiana Journal of Global Legal Studies*, Vol. 5, No. 2, pp. 443-74.

Archibuggi, D., J. Howells and J. Michie (eds) (1999), *Innovation Policy in a Global Economy*, Cambridge, MA: Cambridge University Press.

Barrell, R. and N. Pain (1997), "Foreign direct investment, technological change, and economic growth within Europe", *The Economic Journal*, Vol. 107, No. 445, pp. 1770-86.

Basant, R. and B. Fikkert (1996), "The effects of R&D, foreign technology purchase, and domestic and international spillovers on productivity in Indian firms", *The Review of Economics and Statistics*, Vol. 78, No. 2, pp. 187-99.

Bhagwati, J. (1982), "Directly unproductive, profit-seeking (DUP) activities", *Journal of Political Economy*, 90, pp. 988-1002.

Dawson, A.C. (1998), "The intellectual commons: A rationale for regulation", *Prometheus*, Vol. 16, No. 3, pp. 275-89.

Dunning, J.H. (ed.) (2000), *Regions, Globalization, and the Knowledge-Based Economy*, Oxford: Oxford University Press.

Ettlinger, N. and W. Patton (1996), "Shared performance: The proactive diffusion of competitiveness and industrial and local development", *Annals of the Association of American Geographers*, Vol. 86, No. 2, pp. 286-305.

Flamm, K. (1988), "The changing pattern of industrial robot use", in R.M. Cyert and D.C. Mowery, *The Impact of Technological Change on Employment and Economic Growth*, Cambridge, MA: Ballinger, pp. 267-328.

Gerstenberger, W. (1990), *Reshaping Industrial Structures*, paper presented at the International Conference on Technology and Competitiveness, OECD, Paris, 25-27 June.

Giovannnetti, E. (2000), "Technology adoption and the emergence of regional asymmetries", *Journal of Industrial Economics*, Vol. 48, No. 1, pp. 71-102.

Keller, W. (2002), "Geographic localization of international technology diffusion", *The American Economic Review*, Vol. 92, No. 1, pp. 120-42.

Kelly, K. (1998), *New Rules for the New Economy*, London: Fourth Estate.

Kogut, B. (1991), "Country capabilities and the permeability of borders", *Strategic Management Journal*, Vol. 12, special issue, summer.

Krueger, A. (1974), "The political economy of the rent-seeking society", *American Economic Review*, Vol. 64, No. 3, pp. 291-303.

Lim, C.Y. (1990), "The Schumpeterian road to affluence and communism", *Malaysian Journal of Economic Studies*, Vol. 27, Nos. 1-2, pp. 213-23.

MacDuffie, J.P. and T.A. Kochan (1995), "Do US firms invest less in s human resources? Training in the world auto industry", *Industrial Relations*, Vol. 34, pp. 147-68.

Malmberg, A., O. Sölvell and I. Zander (1996), "Spatial clustering, local accumulation of knowledge and firm competitiveness", Geografiska Annaler, Series B, *Human Geography*, Vol. 78, No. 2, pp. 85-97.

Martin, R. and P. Sunley (1998), "Slow convergence? The new endogenous growth theory and regional development", *Economic Geography*, Vol. 74, No. 3, pp. 201-27.

Menzies, H. (1998), "Challenging capitalism in cyberspace", in R.W. McChesney, E.M. Wood and J.F. Bellamy (eds), *Capitalism and the Information Age*, New York: Monthly Review Press, pp. 87-98.

Ostry, S. (1998), “Technology, productivity and the multinational enterprise”, *Journal of International Business Studies*, Vol. 29, No. 1, pp. 85-99.

Pauly, L.W. and S. Reich (1997), “National structures and multinational corporate behaviour: Enduring differences in the age of globalization”, *International Organization*, Vol. 51, No. 1, pp. 1-30.

Petit, P. and L. Soete (1999), “Globalization in search of a future: The contemporary challenge to national policies”, *International Science Journal*, No. 160, pp. 165-81.

Schiller, D. (1988), “How to think about information”, in V. Mosco and J. Wasko (eds), *The Political Economy of Information*, Madison: University of Wisconsin Press, p. 2744.

————— (1999), *Digital Capitalism: Networking the Global Market System*, Cambridge, MA: MIT Press.

Schumpeter, J.A. (1934), *Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*, Cambridge, MA: Harvard University Press.

Siddhartan, S.N. and E. Safarian (1997), “Transnational corporations, technology transfer and imports of capital goods: The recent Indian experience”, *Transnational Corporations*, Vol. 6, No. 1, pp. 31-50.

Stern, G. (1994), “GM puts Saturn in small-car group, shakes up North American operations”, *Wall Street Journal*, 5 October, p. A7.

Supapol, A.B. (ed) (1995), *Transnational Corporations and Backward Linkages in Asian Electronics Industries*, United Nations, New York.

Storper, M. (1992), “The limits to globalization: Technology districts and international trade”, *Economic Geography*, Vol. 68, No. 1, pp. 60-93.

Wei, S.-J. (2000), *Natural Openness and Good Government*, NBER Working Paper No. 7765, NBER, Cambridge, MA.

About ENEPRI

The European Network of Economic Policy Research Institutes (**ENEPRI**) is composed of leading socio-economic research institutes in practically all EU member states and candidate countries that are committed to working together to develop and consolidate a European agenda of research. **ENEPRI** was launched in 2000 by the Brussels-based Centre for European Policy Studies (CEPS), which provides overall coordination for the initiative.

While the European construction has made gigantic steps forward in the recent past, the European dimension of research seems to have been overlooked. The provision of economic analysis at the European level, however, is a fundamental prerequisite to the successful understanding of the achievements and challenges that lie ahead. **ENEPRI** aims to fill this gap by pooling the research efforts of its different member institutes in their respective areas of specialisation and to encourage an explicit European-wide approach.

ENEPRI is composed of the following member institutes:

CASE	Center for Social and Economic Research, Warsaw, Poland
CEE	Center for Economics and Econometrics, Bogazici University, Istanbul, Turkey
CEPII	Centre d'Études Prospectives et d'Informations Internationales, Paris, France
CEPS	Centre for European Policy Studies, Brussels, Belgium
CERGE-EI	Centre for Economic Research and Graduated Education, Charles University, Prague, Czech Republic
CPB	Netherlands Bureau for Economic Policy Analysis, The Hague, The Netherlands
DIW	Deutsches Institut für Wirtschaftsforschung, Berlin, Germany
ESRI	Economic and Social Research Institute, Dublin, Ireland
ETLA	Research Institute for the Finnish Economy, Helsinki, Finland
FEDEA	Fundación de Estudios de Economía Aplicada, Madrid, Spain
FPB	Federal Planning Bureau, Brussels, Belgium
IE-BAS	Institute of Economics, Bulgarian Academy of Sciences, Sofia, Bulgaria
IER	Institute for Economic Research, Bratislava, Slovakia
IER	Institute for Economic Research, Ljubljana, Slovenia
IHS	Institute for Advanced Studies, Vienna, Austria
ISAE	Istituto di Studi e Analisi Economica, Rome, Italy
NIER	National Institute of Economic Research, Stockholm, Sweden
NIESR	National Institute of Economic and Social Research, London, UK
NOBE	Niezalezny Osrodek Bana Ekonomicznych, Lodz, Poland
PRAXIS	Center for Policy Studies, Tallinn, Estonia
RCEP	Romanian Centre for Economic Policies, Bucharest, Romania
SSB	Research Department, Statistics Norway, Oslo, Norway
SFI	Danish National Institute of Social Research, Copenhagen, Denmark
TÁRKI	Social Research Centre Inc., Budapest, Hungary

ENEPRI publications include three series: Research Reports, which consist of papers presenting the findings and conclusions of research undertaken in the context of ENEPRI research projects; Working Papers, which constitute dissemination to a wider public of research undertaken and already published by ENEPRI partner institutes on their own account; and thirdly, Occasional Papers (closed series) containing a synthesis of the research presented at workshops organised during the first years of the network's existence.

European Network of Economic Policy Research Institutes
c/o Centre for European Policy Studies
Place du Congrès 1 ▪ 1000 Brussels ▪ Tel: 32(0) 229.39.11 ▪ Fax: 32(0) 219.41.51
Website: http//:www.enepri.org ▪ E-mail: info@enepri.org